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This case discusses the success of Alibaba. com Corporation (Alibaba) in China under the leadership of Jack Ma (Ma), its founder. It talks about the transformation of Alibaba into one of the most successful e-commerce companies in China and also analyzes its business portfolio. The case explains in detail the rationale behind Ma starting an e-commerce website and his efforts to bring about the growth of the company.

Alibaba had emerged as the largest e-commerce company in China. The company tailored its strategies to meet the needs of the customers and made a mark because of its understanding of the Chinese language and culture. However, some experts have also raised doubts over the sustainability of Alibaba‟s business model.

The case highlights how Ma successfully competed with foreign e-commerce companies like eBay Inc. (eBay) by establishing a rival website, Taobao. com, in the online auctions market. However, Alibaba lagged behind in the Chinese web search market despite acquiring Yahoo! China‟s operations in 2005. Moreover, with Baidu. com (Baidu), China‟s leading search engine announcing its plans to foray into the rapidly growing e-commerce market in 2008, the competition was expected to intensify for Alibaba. After a successful IPO, the company was preparing to strengthen its competitive position in China and also to provide tough competition to other Internet and ecommerce companies in the global arena.

IMMEDIATE ISSUES
Strategies to be adopted by Alibaba to increase its market share in the rapidly growing Chinese e-commerce market.
Strategies to be adopted by Alibaba to defend its market share in the Chinese e-commerce market considering the competition was intensifying with the entry of other Chinese and global players.
Strategies to be adopted by Alibaba to capture a larger share in the Chinese web search market.
Strategies to be adopted to make its business model sustainable. Decision on global expansion – Should it adapt its business model? If so, how?

INDUSTRY ANALYSIS
The Chinese e-commerce Market
Broadband penetration in China picked up from 2004 after it surpassed South Korea and Japan in 2003. As of 2008, China, with 210 million users, stood second in terms of Internet users after the US with 216 million users. The broadband penetration in China in 2008 stood at 75 percent. With the growth of high-speed broadband, the e-commerce market in China also grew. The concept of e-commerce was introduced in China in 1993. Though it took some time for it to catch on, it grew at a frantic pace. For instance, the market scale for e-commerce in China grew from RMB 120 billion in 2001 to RMB 680 billion in 2005. China was also one of the fastest growing e-commerce markets in the world. In the first quarter of 2008, the Chinese C2C market created a boom by generating sales of US$ 2. 98 billion.

Despite huge opportunities, there were some barriers to the growth of e-commerce in China like the limited use made of credit cards. Chinese consumers preferred to pay by cash rather than through credit cards. Moreover, they did not have faith in the security of the payment systems, the quality of the products purchased, and after sales service. There was also a growing concern about the rampant sale of counterfeit products through the site.

The e-commerce market was influenced by government regulations related to Internet access, content regulation, encryption, and domain name. There were also issues related to the censoring of the content for preventing dissemination of sensitive information related to the Chinese economy.

Another major constraint hindering the development of e-commerce was an inefficient logistics system. This was due to inconsistent distribution systems, underdeveloped transportation systems, and inadequate use of technology in developing a reliable logistics system. Competition

A firm can formulate its competitive strategy by relating itself to the environment. The industry in which the firm operates is the key facet of the organizations environment. The structure of the industry also determines the kind of strategies that the organization adopts. Outside forces also have a significant impact on the organization‟s competitive position. The competition in an industry can be analyzed by Michael Porter‟s (Porter) five forces model (Refer to Figure I for Porter‟s five forces model).

The combined strength of these forces depicts the potential profitability of the organization. Every industry has a different profit potential as the competitive forces differ from each other. The goal of a company in devising a competitive strategy is to find a position where it can defend itself against other players in the industry. The company can gather knowledge about its competitors highlighting their critical areas of strengths and weaknesses. It can also analyze the areas where changes will yield a payoff
and where industry trends hold a greater level of significance than threats or opportunities. This understanding is expected to help a company identify areas for expansion and diversification.

Suppliers, buyers, new entrants, and substitutes are termed “ competitors” in the industry. The five competitive forces help a firm identify the intensity of the competition and devise their business strategies accordingly.

Threat of new entrants
Despite having a strong presence in the Chinese e-commerce market, Alibaba‟s position as market leader faced a challenge when Baidu announced its plans to enter the Chinese e-commerce market. Analysts felt that Baidu‟s entry could have a serious impact on Alibaba‟s profitability considering the former‟s leadership position in the web search market. Though Alibaba had conquered the ecommerce market, it had failed to make a mark in the Chinese web search market because of the presence of dominant players like Baidu and Google Inc. (Google). In an attempt to garner a share in the rapidly growing web search market, Alibaba acquired Yahoo! China‟s operations in 2005. However, the acquisition did not help it gain a strong foothold in the web search market because of Baidu‟s popularity. The barriers to entry into the Internet industry were low as far as start-up costs were considered; however, there were other issues, in China, such as political interference, regulatory hurdles, etc., which could deter some foreign players from entering the market. Intensity of rivalry among existing competitors

The intensity of rivalry in the market was high considering the huge target market at stake. The players in the market were ready to fight it out by providing free takeaways, adding newer value added services, and also engaging in advertising wars. Global players were also getting into strategic partnerships with well-connected local players to take care of the disadvantages of operating in this emerging market.

Pressure from substitutes
Substitutes in an industry limit the returns by putting a ceiling on the prices that firms can fix to increase their profitability. While there were a few players existing in the Chinese e-commerce market, they were not close substitutes for Alibaba considering its dominance in the B2B market. However, eBay EachNet‟s choice of JV partner could change the situation. TOM Online had a significant presence in mobile commerce, which could prove useful in a country where there were four mobile phone users for every computer user. It was reported that there were some promising pilot programs running in some parts of China that sought to use mobile phones as the payment system in place of credit cards. This was expected to pose a threat to Taobao since the use of credit cards was one of the factors that discouraged buyers and sellers from entering into transactions on eBay EachNet. With the increasing usage of mobile phones as payment systems, competition was expected to intensify for Alibaba.

Bargaining power of buyers
Buyers in the industry compete by bargaining for services and quality and the cutting down of prices, keeping profitability of the industry in check. Their bargaining power was significantly high in the Chinese market. This was one reason for Alibaba providing free services.

Bargaining power of suppliers
Suppliers exert their power by bringing down the quality or increasing the prices of their products. However, the abundance of suppliers in the Chinese market meant that their bargaining power was low.

Alibaba‟s suppliers included the manufacturers, agents, wholesalers, distributors, agents, etc. One of Alibaba‟s strengths was its strategic location where thousands of suppliers were available. The fact that it understood the Chinese language and culture was also considered as an asset for it in maintaining its supplier directory. However, Alibaba was not well-known in Europe and North America and had to build its brand and provide a value proposition to them while maintaining a good working relationship with the suppliers in China.

GROWTH STRATEGIES
Organic growth is growth achieved by the company through increasing output and sales. Also referred to as „ internal growth‟, organic growth does not include the growth achieved through mergers, acquisitions, and takeovers. It also excludes the impact of foreign exchange. Organic growth is considered to represent the true growth of a company as it is a good indicator of the company‟s core strength. It is also a good indicator of how skillful the management of the company is in using its internal resources to spur growth.

Inorganic growth is the growth achieved by a company through mergers, acquisitions, and takeovers, rather than through an increase in its own business activity. Inorganic growth, also referred to as „ external growth‟, provides the company access to new markets and fresh ideas. It is often viewed as a faster way for a company to grow when compared with organic growth. Typically, most companies use a combination of the organic and inorganic growth avenues to spur business growth in line with the company‟s vision and mission. However, it is a matter of debate as to whether organic or inorganic growth results in better shareholder value. In fall-2007, Alibaba announced its plans to reorganize its corporate strategy and adopt mechanisms for sustainable business development. As a key competence, it announced that it would build a strong and robust e-business infrastructure to ensure smooth transactions through its site.

Alibaba‟s growth strategies for the future included accelerating its e-commerce market and increasing its presence in overseas markets. It aimed to expand globally, especially in the lucrative European market. In 2007, Alibaba announced its plans to expand into Europe, considering the growth potential of the European e-commerce market, which had more than 20 million small and medium enterprises (SMEs). It aimed to use its IPO proceeds to fund this venture. In addition to targeting the European market, Alibaba aimed to expand into India by collaborating with Infomedia India Ltd., India‟s special interest publishing and largest Yellow Pages company. This association was expected to provide India‟s 8 million SMEs with a single channel for domestic and global trade. While expanding globally, Alibaba aimed to build its supplier base outside China by concentrating on the European and rest of the Asia-Pacific markets. Alibaba also aimed to restructure its Yahoo! China operations since it was not an income generator for it. Alibaba aimed to merge its e-business and network search capabilities in an attempt to revive Yahoo! China. In December 2007, as part of its development strategy, Alibaba restructured its personnel management and in 2008, it laid off nearly 100 employees in Yahoo! China to build a world-class team. With this, Ma aimed to build its presence in the lucrative Chinese web search market.

SUSTAINABILITY OF THE BUSINESS MODEL
A business model can be defined as „ a strategic design for how a company intends to profit from its strategies, processes, and activities‟. It spells out how a company brings in revenues by specifying where it is positioned in the value chain. It addresses questions on what value proposition it presents to its customers, which market segment it targets, what the value chain structure is, the firm‟s position and activities in the value chain, how revenues are generated, and what the firm‟s competitive strategy is.

Innovative business models help improve the financial performance of companies by making them effective as well as efficient. New business models are threatening or even replacing established companies and conventional ways of doing business in various industries. However, it is very important that a company‟s business model is scalable and sustainable.

HIGHLIGHTS
The reasons for Alibaba‟s dominant position in the Chinese e-commerce market A look at Alibaba‟s business portfolio
Threats to Alibaba‟s competitive position in China
Alibaba‟s business model and inputs on whether it is scalable, sustainable, and exportable to other developed and emerging markets
Implications for other global players

LEVEL OF ANALYSIS AND POTENTIAL USES
This case is intended for use in MBA/MS level programs as part of a course on Business Strategy. COURSE
Business Strategy
International Management

SECTION OF THE SYLLABUS
Competition
Growth strategies
International business environment

TEACHING OBJECTIVES
This case will help the learner to
a) Understand the issues and challenges faced by a Chinese e-commerce company in growing its business
b) Study Alibaba‟s business model and see whether it is sustainable
c) Study how Alibaba achieved a balance in catering to global customers while customizing its practices to suit the needs of its Chinese consumers
d) Understand how e-commerce companies operate in emerging markets
e) Examine the challenges faced by Alibaba in expanding its business globally

SUGGESTED TEACHING APPROACH
The students can be given a preparatory assignment wherein they are asked to go through the case and list the basic issues that need to be discussed in the classroom (Refer to section: Suggested Assignments for Students). The additional readings and references given will help the students to get a thorough understanding of the case.

The teacher/moderator can start the classroom discussion by giving a brief overview of Alibaba. com‟s success in China. He/she can also briefly describe Ma‟s entrepreneurial skills which helped Alibaba face competition from other players. The moderator can further discuss the sustainability of Alibaba‟s business model. He/she can then divide the class into groups of five or six. The groups can discuss the basic issues and the questions given to facilitate further discussion. The analysis of the discussion questions can be presented by one of the groups, to be followed by an interactive session. The moderator can lead the discussions and then conclude with a summary of the highlights of the case.

Introduction of the case – 10 min
Class discussion to identify the basic issues of the case: 15 min Class discussion for question 1: 15 min
Class discussion for question 2: 15 min
Class discussion for question 3: 15 min
Discussion on follow-up assignment (optional): 10 min
Summary: 10 min

Total expected session time: 90 min

SUGGESTED QUESTIONS FOR DISCUSSION
1. Critically analyze the factors that led to Alibaba sustaining its leadership position in the Chinese e-commerce market.
2. Discuss the rationale behind Ma establishing Taobao. com. What are the factors that led to Taobao’s success as compared to eBay in the Chinese online auctions market? With Baidu’s entry into the e-commerce market, discuss the challenges that Alibaba faces with regard to sustaining its position in the growing e-commerce market in China.
3. Critically examine Alibaba’s business model. Do you think it is sustainable? After having captured the Chinese e-commerce market, what steps should Alibaba take to expand globally?

SUGGESTED ASSIGNMENTS FOR STUDENTS
Preparatory Assignment:
The students may be given the following assignments before the actual discussion of the case. They can be formed into groups and asked to prepare a note on any of the two questions given here.
Prepare a brief note analyzing the opportunities and threats faced by Chinese e-commerce companies.
Analyze the factors that led to the success of Alibaba in the Chinese e-commerce market. Follow-up Assignment:
Going forward, what should Alibaba‟s strategy be for expanding its business models in China and emerging Internet markets? Give reasons justifying your choice of targets.

OTHER ISSUES
Nature of the case
This is a case study prepared through secondary research. It has been compiled by the authors from published sources.

ANALYSIS
1. Critically analyze the factors that led to Alibaba sustaining its leadership position in the Chinese e-commerce market.
Some of the factors that contributed to the success of Alibaba in the Chinese e-commerce industry were:
First mover advantage: Alibaba started its operations when e-commerce in China was in its infancy stage. Considering the potential of the budding e-commerce market, Alibaba started with operations that concentrated on providing B2B services to SMEs that were aspiring to go global.

Smart competitive and marketing strategies: From an early stage, Alibaba had been focusing on differentiating itself by providing better services to its customer. It put an innovative business model in place where customers could try out its services without any cost. Over time, it was able to generate revenue from alternative streams and increase revenue as the willingness of the users to pay for additional services increased. Local knowledge: The knowledge of the local market also proved crucial for Alibaba‟s success. For instance, its decision to start a payment system in collaboration with a reputed bank in China was due to its local knowledge. Though credit cards were used in China, they were not the preferred medium of transaction as the Chinese were not comfortable using it. Alibaba‟s payment system provided them with a sense of safety and contributed to their willingness to transact online.

It was also able to provide a simple yet efficient website that helped SMEs which were not too tech savvy to navigate the site effectively. Negotiating regulatory and other hurdles: Regulatory hurdles could pose huge challenges to companies operating in emerging markets like China. The Internet was highly regulated in the country and that was one of the reasons that foreign companies found it difficult to succeed in China. It can be said that Alibaba had negotiated the challenges posed by the emerging market quite well – it had taken advantage of the opportunities while mitigating the risks of operating in such a market. Leadership and vision: Finally, the leadership and vision of Jack Ma cannot be underestimated. He was able to build up an Internet business in China from scratch and this led to the flourishing of the Internet market in China. His entrepreneurial skills and vision contributed hugely to the success of Alibaba. His approach to competition was almost playful, but effective nevertheless. Acquiring Yahoo! China and weaning away customers from eBay Eachnet at a time when eBay was bullish on the Chinese market was indeed laudable.

2. Discuss the rationale behind Ma establishing Taobao. com. What are the factors that led to Taobao’s success as compared to eBay in the Chinese online auctions market? With Baidu’s entry into the e-commerce market, discuss the challenges that Alibaba faces with regard to sustaining its position in the growing e-commerce market in China. Alibaba‟s increasing popularity and the burgeoning e-commerce market in China attracted several foreign e-commerce companies to China. In 2002, eBay entered China by acquiring a 33 percent stake in EachNet to form eBay EachNet. In the same year, eBay EachNet emerged as the leading player in the Chinese online auctions market. By 2003, eBay EachNet had captured a market share of 79 percent in the Chinese online auctions market.

Considering the growth outlook of the Chinese online auctions market, Alibaba launched a rival website Taobao. com by teaming up with Masayoshi Son (Son), CEO, Softbank, in 2003. Alibaba launched Taobao to tap the opportunities in the fast growing C2C e-commerce market in China. The company already held a dominant position in the B2B arena and felt that its local knowledge would help it topple eBay and dominate the C2C market as well. Taobao soon captured the C2C e-commerce market and the market shares of eBay EachNet and Taobao were reversed. This was despite the fact that the CEO of eBay was very bullish about the Chinese markets.

Taobao‟s understanding of the Chinese language, culture, and consumer preferences helped it emerge as a successful player in the Chinese online auctions market. Taobao leveraged on its knowledge of the local market to wean customers away from eBay EachNet. Some factors that contributed to
Taobao‟s success were:

Ma differentiated Taobao from eBay EachNet by allowing free product listings on its site. eBay EachNet, on the other hand, charged for its services. eBay EachNet which initially criticized the Taobao business model calling it unsustainable, was forced to adopt a similar approach later.

eBay EachNet‟s growth was hampered by a lack of the trust factor among Chinese buyers and sellers while trading online. The company required its consumers to pay through credit cards while the Chinese consumers preferred to pay by cash. Alibaba, was at an advantage as it launched AliPay, a payment system that held the money in an escrow account before the buyers and sellers struck a deal.

Other factors that helped Taobao succeed over eBay EachNet were its aggressive promotional strategies. Taobao posted ads on online sites and placed billboards in major cities. Taobao‟ easy-to-use features also helped it attract consumers, resulting in users making a shift from eBay EachNet to Taobao.

Analysts felt that there were various factors behind eBay‟s problems in China. The biggest complaint against it was its lack of customer service. It did not provide a phone number that customers could call in case of any queries. On the other hand, Taobao enabled its buyers and sellers to communicate through an instant messenger service. Taobao allowed its customers to interact with other users before buying a product. However, eBay kept the users‟ contact information a secret till a buyer had won the bid. This was eBay‟s way of ensuring that the users did not come into direct contact with each other until a transaction had been completed.

The eBay EachNet site was not tailored to Chinese consumers. Taobao‟s auction site, on the other hand, was perceived to be more in tune with the Chinese consumers‟ buying behavior. It had a layout that was similar to a Chinese department store with separate sections for women‟s and men‟s departments.

Taobao also took advantage of eBay‟s misplaced decision to extend its globally successful business model in China. This was a big mistake on eBay‟s part, considering that the ground realities in China were very different from those in other more developed nations. eBay‟s complacency and decision not to rely too much on the EachNet team (who had better knowledge of the market) also created problems for it. Taobao‟s decision to launch B2C services on Taobao was another blow to eBay Eachnet. This allowed a potential 10 million users of Alibaba‟s B2B site to visit Taobao‟s B2C site.

Baidu‟s entry into the Chinese C2C market was a potential threat for Alibaba. Baidu had already defeated Alibaba in the Chinese web search market and could use its knowledge of the local market to snatch away customers from Taobao. Baidu already accounted for 60 percent of the Chinese web search market and it aimed to leverage on its strength of search engine user base to foray into the C2C market.

Baidu‟s popularity as a Chinese language search engine was due to its strong understanding of the subtleties of the Chinese language and culture. Because of its intimate knowledge of the local language, culture, and dealings with the government, Baidu would have an edge in the Chinese C2C market. Moreover, it too was prepared to play the „ free‟ game. And with the Chinese ecommerce market still in its early stages of development there was always a possibility of a shake up in the market. Taobao weaning away customers from eBay Eachnet was a case in point. But there was a difference between Taobao‟s success and what Baidu faced: Taobao had to contend with eBay Eachnet which could not hold on to its position due to an inadequate knowledge of the Chinese market and unwillingness to reengineer its business model. Baidu, on the other hand, had to contend with Taobao.

Web search business and e-commerce require different capabilities and the capabilities are not necessarily transferable to each other. We have seen how Alibaba, which was so successful in e-commerce, struggled in the web search market. The same can happen to Baidu when it enters the e-commerce business. However, Taobao would do well not to be complacent. We saw what complacency did to eBay Eachnet. 3. Critically examine Alibaba’s business model. Do you think it is sustainable? After having captured the Chinese e-commerce market, what steps should Alibaba take to expand globally? Adopting a free strategy formed the core of Alibaba‟s business model. Most of the sellers and buyers were attracted to its site because of Ma‟s strategy of not charging any listing and transaction fees from its buyers and sellers in contrast to other e-commerce sites that charged for their services.

The business model at Alibaba entailed that Ma in conjunction with his employees developed the corporate strategy. The model was arrived at after a thorough review of the company‟s performance with respect to competitors. This is how it identified areas for improvement and created a unique value proposition. Its decision to focus on the business segment was also a plus as it provided it with the scope to achieve for organic growth without being subjected to significant risks.

Alibaba‟s „ free‟ strategy was questioned on various fronts. Experts were skeptical about its growth and the sustainability of its business model if it continued to provide free listings and charged no transaction fees for its services through the site. In a market like China many people still had not had an experience of the Internet and of those who were experienced, the majority had still not attained the same level of sophistication as their peers in developed nations. In such circumstances, Alibaba. com realized that it had to build a loyal customer base before it started charging for its services. In addition to this, it focused on providing enhanced service to its customers and on innovation. As the users gained sophistication, and as their willingness to pay for value added services increased, Alibaba expected that it would be able to increase its revenues. Adopting such a long-term orientation is crucial if one is to succeed in an emerging market like China. Till then, one has to rely on alternative streams of revenue. Alibaba had proved that its business model was a force to reckon with. For instance, some of its competitors who had initially criticized its business model, later decided to adopt certain aspects of it.

Human capital too formed a big part in Alibaba‟s business model. It focused on providing employees with better working conditions. The advantages of providing employees with good working conditions were threefold – increased employee productivity, retention of top talent, and the ability to attract top talent. These three factors also helped Alibaba achieve a sustainable business performance.

Global foray:
With the business environment becoming increasingly competitive in China, Alibaba‟s decision to focus on the global market seemed to be a logical one. After having established its presence in the Chinese e-commerce market with sales offices in Beijing, Seoul, Silicon Valley, London, and Latin America, Alibaba aimed to expand its operations mainly to the rest of the Asia Pacific, the US, Russia, and Eastern Europe. With money coming in from its IPO, it had the opportunity to increase its global footprint.

It can extend its business model in other emerging markets too. For instance, in India for which Alibaba had grand plans, the ground realities are similar – huge population, strong GDP growth, growing middle class, huge increase in Internet users, low credit card usage, etc. In markets such as these, Alibaba‟s business model would work well provided the cultural aspects are taken into account. Alibaba would therefore do well to forge some strategic alliance with some local player in these markets.

Even in more developed markets, a business model such as this could work. For instance, there is always a section of the population to whom a „ free‟ model seems attractive. However, the key to developed market would be to provide more value-added services that a majority of the users in developed markets covet. Alibaba was already doing reasonably well in Europe and it is not hidden from the company that it could get more revenues in the short term catering to users in these markets.

Balancing global and local priorities will be very important for Alibaba. The Internet market in China is still in its early stages of maturity and losing focus could lead to Alibaba losing its dominant position. The company should also have a relook at its business portfolio. For instance, questions such as „ Does something like Alimama indeed add any value to its customers in China or in the global market?‟ should be seriously considered.

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