

# Alibaba is a business to business company marketing essay



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Alibaba.com is regarded as a dominant player and a high-growth company due to its large membership base and its phenomenal growth. Its total registered user base grew from 6.0 million in 2004 to 19.6 million in 2006. In the same vein, it registered a cumulative annual growth rate of 94.8% in 2006 alone.

One of its major competitors in the international marketplace B2B giant 'Global Sources', which has an online directory of "many other B2B services it offered, such as print business directories and exhibitions", (Farhoomand, 2008, p. 7). However, Alibaba.com has various strengths which served as its competitive advantages over Global Sources and other competitors.

Indeed, Alibaba.com should continue in being a dominant player in the B2B eCommerce industry. Among all the upcoming B2B in China, Alibaba.com has received much despite not being listed in NASDAQ. In 2001 the company was featured by Forbes as its cover story also selected as the only firm on the Forbes "Best of the Web: B2B" list founded in China (Doebeler, 2000). By 2002 the Alibaba.com was selected and featured by Forbes again as its only "Best of the Web: B2B" in the month of September. (Qin Hu et al., 2004).

## **1.0 Background**

### **1.1 What is Alibaba.com**

Alibaba.com was founded in June 1999 by Jack Ma and eighteen other founders (Farhoomand, 2008, p. 3). It is a business-to-business portal which allows suppliers of everything from 176 countries to connect with buyers around the world." (Bi, 2002). The Company's founder Jack Ma was nominated as one of the 100 Global Leaders for Tomorrow by the World

Economic Forum and was honored as a recipient in the Asian Business Association Business Leadership Award in 2001, on the 27 December 2001 with the registered 1, 000, 000 Alibaba. com member, which became the only B2B Webster with 1, 000, 000 registered business members from 202 countries. (Qin Hu et al., 2004)

Since inaugurating its website in simplified Chinese to serve the Chinese mainland market in 1999 (Farhoomand, 2008, p. 3), it “ has now become world’s largest online business-to-business global trading marketplace, with 2. 5 million and 14 million registered users in its international and Chinese domestic marketplaces respectively “, (“ Alibaba. com: A Smiling Community with a Dream”, undated).

Based on the number of registered users and market share by revenue at the end of the second quarter of 2007, Alihaba. com was considered as the largest online B2B company in China. The international marketplace was served through its English language website which caters to global importers and exporters (Farhoomand, 2008, p. 4). On the other hand, the China marketplace was served by its Chinese - language website, Alibaba. com which caters to domestic suppliers and buyers (Farhoomand, 2008, p. 4). Alibaba. com online transaction basically has six levels as describe CTO, John Wu which are information exchange, negotiation, price bargaining, shipping, insurance, inspection and customs processing and payment. As its lowest level that Alibaba. com operates. In other words it only provides an information platform on which the buyers and sellers meet and post business information.(Qin Hu et al 2004).

Farhoomand (2008, p. 4) explains that the business model of Alibaba.com centers on the use of the marketplace by suppliers and buyers who would “establish their presence online, identify potential trading partners and conduct business with each other.” Farhoomand (2008, p. 4) describes the manner by which the Alibaba.com interface is used by suppliers and buyers in China and around the world in their trading activities:

, Suppliers and some buyers would use the marketplaces to host their company profiles and catalogues in standardised formats known as “storefronts” and post “listings” such as products, services and trade leads. Users could view storefronts and listings in over 30 industry categories and nearly 5,000 product categories by either searching for keywords or browsing through the online industry directory. (Farhoomand 2008, p. 4).

Figure 1 presents the value proposition of Alibaba.com and the manner by which it effectively facilitates the conduct of trade within the context of B2B commerce.

Figure 1 Alibaba.com's Value Proposition

### **Source: Farhoomand (2008, p. 17)**

Figure 2 below shows the typical process of trade in Alibaba.com. Suppliers and buyers were able to successfully establish large online communities in Alibaba.com which “features active listings, enquiry exchanges, instant messaging, discussion forums and other user-friendly community features”, (Farhoomand, 2008, p. 4).

Figure 2 A Typical Trading Process in Alibaba.com

**Source: Farhoomand (2008, p. 17)**

Although Alibaba.com offers free basic services to its all its registered members, it generates its revenues from the services purchased by suppliers which include “membership packages that provided priority placement of storefronts and listings in the industry directory and search results”, (Farhoomand, 2008, p. 5). These suppliers are charged from their subscription to value-added services which include: (1) purchase of additional keywords which help improve their search result rankings; and (2) premium placement on Alibaba.com’s web pages (Farhoomand, 2008, p. 5).

**1.2 Why Should Alibaba.com be Considered a High Growth Company?**

Alibaba.com should be considered as a high-growth company due to its large membership base and its phenomenal growth. Its total registered user base grew from 6.0 million in 2004 to 19.6 million in 2006. In the same vein, the total number of its paying members grew from 77,922 in 2004 to 219,098 in 2006. Figures 3 and 4 below show the growth in the number of Alibaba.com’s registered users and paying members, respectively.

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Figure 3 Growth in the Number of Alibaba.com’s Registered Users from 2004 to 2006.

**Source: Farhoomand (2008, p. 5).**

Figure 4 Growth in the Number of Alibaba.com’s Paying Members from 2004 to 2006.

By the end of 2007, Alibaba. com has already successfully captured 50% of the market share of China's online e-commerce revenue (Farhoomand, 2008, p. 19). Figure 5 below presents the market share of China's online e-Commerce Market by Revenue. Basically the pie chart demonstrated how successful Alibaba. com has been able to stay above its major competitors by seizing half of the market share.

Figure 5 Market Share of China's Online E-Commerce Market by Revenue

**Source: Farhoomand (2008, p. 19).**

Moreover, its phenomenal growth in the B2B industry is buttressed by its impressive financial standing. By the end of 2004, its annual revenues totaled US\$48. 3 million, (Farhoomand, 2008, p. 5). With a cumulative annual growth rate of 94. 8%, its annual revenues amounted to US\$183. 2 million at the end of 2006. Figure 6 below presents the financial data of Alibaba. com from 2004-2007.

Figure 6 Financial Data of Alibaba. com from 2004-2007

**Source: Farhoomand (2008, p. 5)**

### **1. 3 Who is Jack Ma?**

Jack Ma is the founder and chairman of Alibaba. com and is a native of Hangzhou, which is situated approximately 100 miles southwest of Shanghai, where the company's headquarters resided (Farhoomand, 2008, p. 3). Jack Ma is “ one of the first entrepreneurs to develop e-commerce in China”, (“ Alibaba. com: A Smiling Community with a Dream”, undated). He, together with his partners have successfully established the following: (1) first

internet commercial website in China; (2) a B2B marketplace platform for suppliers and buyers around the world; (3) “ the world’s first on-line credit platform for companies”, called the ‘ Trust Pass’ (“ Alibaba. com: A Smiling Community with a Dream”, undated).

Jack Ma grew up during China’s Cultural Revolution and became fascinated in learning English at the tender age of 12, (Farhoomand, 2008, pp. 3-4; Fannin, 2008). “ For eight years, he rode 40 minutes every morning on his bicycle to a hotel near the West Lake and practised his English by giving free tour guides to foreigners”, (Farhoomand, 2008, p. 4). Later, when he decided to pursue a degree in education out of his desire to teach English to high school students, he flunked his admission exam twice for a University, prior to being accepted at Hangzhou Teachers University, (Fannin, 2008). After graduating, he was offered a teaching job with a rate of 100 to 120 renminbi, which is equivalent to USD \$12 to \$15 per month, (Fannin, 2008). Then in 1995, he was employed “ by the Chinese government to settle a dispute between a Chinese firm and its US partner”, (Farhoomand, 2008, p. 4). The US partner held Ma captive at gunpoint for two days “ before he regained his freedom by agreeing to become a partner in an internet startup in China, even though he had no concept of the internet at all”, (Farhoomand, 2008, p. 4).

During the same year, Ma joined a trade delegation in Seattle as an interpreter wherein a friend showed him a computer with an internet connection (Fannin, 2008; Farhoomand, 2008). There, he was surprised to find out that nothing turned up in the search results when he searched for the word ‘ China’. This prompted Ma and his friend to set-up a website and <https://assignbuster.com/alibaba-is-a-business-to-business-company-marketing-essay/>

name it China Pages ((Fannin, 2008). Upon his return to China, he borrowed \$2, 000 to establish China Pages which “ shared a strikingly similar ideology with Alibaba. com: to list Chinese companies on the internet and help foreigners find their websites”, (Farhoomand, 2008, p. 4). However, China Telecom bought out his stake which eventually forced him to return to civil service. In 1998, he started to resume work on his vision of connecting Chinese companies to the world through the internet. Then, in December of that same year, Ma finally realised his vision with the establishment of Alibaba. com, (Farhoomand, 2008, p. 4; Fannin, 2008).

Indeed, Ma had the makings of a successful business leader. Under his leadership, Alibaba. com became a leading B2B marketplace which have successfully “ attracted more than 17million registered members in 220 countries globally, with daily postings exceeding 35 million, making Alibaba. com the most active Internet marketplace and B2B community worldwide”, (“ Alibaba. com: A Smiling Community with a Dream”, undated).

## **1. 4 What is the Basis for the Report?**

This report is primarily based on secondary data obtained from the case study undertaken by Farhoomand (2008) and from other relevant online and offline sources. This study did not use any primary research methods such as interviews in gathering information about Alibaba. com.

## **2. 0 The beginning of Alibaba. com**

Jack Ma officially launched Alibaba. com online in December 1998, (Farhoomand, 2008, p. 3). Alibaba. com originally served as a bulletin board service for businesses to post buy and sell trade leads. Jack Ma and 18 other



founders established the Alibaba group in June, 1999, which is the parent company. It first served clients domestically (Farhoomand, 2008, p. 3).

## **2. 1 The Opportunity**

In 1995, while in Seattle, Jack Ma made his first contact with the computer and internet and was shocked to find out that no search results could be found for the keyword ‘ China’. Together with a friend, Ma decided to set up an online company and name it China pages. In 1998, upon his return to China, he launched China Pages which featured a list of “ companies on the internet and help foreigners find their websites”, (Farhoomand, 2008, p. 4). After three months, Ma and his team established ‘ Alibaba China’ which was a major operating subsidiary in China and which served “ to carry out the business of operating B2B marketplaces”, ((Farhoomand, 2008, p. 4). After three more months, three more sites were set up by the team, which include: (1) “ an English site for international users”; (2) “ a Korean site for Korean users”; and (3) “ a traditional Chinese site for Chinese users outside China ((Farhoomand, 2008, p. 4).

## **2. 2 Competitive Environment**

Even during its infancy, Alibaba. com has already been faced with stiff competition from rivals based domestically and internationally, (Farhoomand, 2008, p. 7). One of its major competitors in the international marketplace B2B giant ‘ Global Sources’, which has an online directory of “ many other B2B services it offered, such as print business directories and exhibitions”, (Farhoomand, 2008, p. 7). Global Sources was first established in Hong Kong in 1971 as “ a monthly trade magazine for consumer products made in Asia for export to Western markets” , (Farhoomand, 2008, p. 7). As <https://assignbuster.com/alibaba-is-a-business-to-business-company-marketing-essay/>

of the end of September 2007, Global Sources already has a community of over 647, 000 buyers and 160, 000 suppliers (Farhoomand, 2008, p. 7). Moreover, Global Sources has successfully : (1) “ enabled suppliers to sell to hard-to-reach buyers in over 230 countries”; (2) “ delivered information on two million products annually”; (3) “ operated 14 online marketplaces that delivered more than 23 million sales leads annually”; (4) “ published 13 monthly magazines and over 100 sourcing research reports per year”; and (5) “ organised nine trade-specific exhibitions that ran 22 times a year across seven cities”, (Farhoomand, 2008, p. 7). Farhoomand (2008, p. 7) explains that Global Sources could be considered as a serious threat to Alibaba. com because its revenue source was “ shifting online, as evidenced by its 2006 annual report demonstrating that online businesses generated over 40% of total revenue.” Figure 7 below shows the contributors to Global Sources’ revenues for 2006.

Figure 7 Contributors to Global Sources’ 2006 Revenues

**Source: Farhoomand (2008, p. 8)**

### **2. 3 Strategic Review of the External Situation at Start up**

Ma only had to carry out very little analysis before launching Alibaba. com due to the structure of the B2B marketplace subsector at that time, which is characterised by a high national internet penetration rate and a robust growth of the Chinese online shopping market; the Chinese B2B eCommerce Market, the Chinese SME and usage of third party eCommerce among Chinese SMEs (Farhoomand, 2008).

## **2. 4 What Competences were Required**

There were numerous competencies required in the establishment of Alibaba. com. First, it needs to possess the capacity “ to make its online marketplaces more effective for SMEs around the world”, (Farhoomand, 2008, p. 6). To do this, Alibaba. com needed to employ people with the necessary technical skills . Moreover, it needed to have people who could help it : (1) expand of its user base and active listing; and (2) “ enhance community experiences to further improve user loyalty and activity through continued development and introduction of new features and tools” (Farhoomand, p. 7).

## **2. 5 Summary of Alibaba. com’s Early Years**

Alibaba. com was officially launched online in December 1998. On July 9, 1999, and September 9, 1999, Alibaba (China) Technology Co., Ltd was founded in Hong Kong and Hangzhou, respectively (“ Alibaba. com: A Smiling Community with a Dream”, undated). In October 1999, Goldman Sachs invested USD 5 million in Alibaba. (“ Alibaba. com: A Smiling Community with a Dream”, undated). “ In October 2000, Alibaba launched the Gold Supplier membership scheme to serve Chinese exporters, followed in August 2001 by the launch of International TrustPass, a membership service catering to exporters outside China. China TrustPass was launched in March 2002 to serve SMEs engaged in domestic trade”, (Farhoomand, 2008, p. 3).

## **3. 0 Alibaba. com's Development from 2002 – 2007**

### **3. 1 Evolution of Alibaba. com**

On March 2002, Alibaba China launched its “ TrustPass” plan initiative, “ which made Alibaba the world’s first on-line credit business community”, (“ Alibaba. com: A Smiling Community with a Dream”, undated). By the end of that same year, Alibaba. com has successfully started making profits (“ Alibaba. com: A Smiling Community with a Dream”, undated). After several years, in November 2007, Alibaba. com “ debuted on the Hong Kong Stock Exchange, raising US\$1. 5 billion to become the world’s biggest internet offering since Google’s initial public offering (“ IPO”) in 2004”, (Farhoomand, 2008, p. 1). According to Qin Hu et al.,(2004) many other businesses owner believe that alibaba. com growth and impact will only become more prevailing in the future. Over the years the sale of goods on the internet by American firms is assumed to reach US\$ 1. 3 million by 2003. By 2004 the European online business to business sales is expected to be US\$1. 6 million compare to China largest population in the world. However some companies in euro are still probing this new source of revenue.

### **3. 2 Understanding the Market and Their Target Customer**

Alibaba. com operates in a business environment whose structure is largely shaped by the following: (1) National internet penetration rate ; (2) Chinese online shopping market; (3) the Chinese B2B eCommerce Market; (4) the Chinese SME; and (5) usage of third party eCommerce among Chinese SMEs (Farhoomand, 2008). In terms of the national internet penetration rate, in 2007, China registered an internet penetration rate of 12. 3% trailing after the US, Japan and South Korea, whose penetration rates were above 65%

(Farhoomand, 2008, p. 2). However, China's internet penetration rate has been documented to grow at approximately three percentage points annually. Figure 8 shows China's internet penetration rate from 2002 to 2007.

Figure 8 China's Internet Penetration Rate from 2002 to 2007

**Source: Farhoomand (2008, p. 10).**

In the same vein, China's online shopping market has also showed a rapid trend of growth (see Figure 9 below).

Figure 9 China's Online Shopping Market from 2006 to 2007.

**Source: Farhoomand (2008, p. 10).**

#### **4.0 The Future for Alibaba. com**

Just one after the IPO in 2007, Alibaba. com has already considered a venture with Softbank. " Although the Japanese telecom giant disclosed no details regarding the venture, it was likely that Alibaba. com would expand its service to mobile users in Japan, a market that had been impenetrable to the Chinese e-commerce company", (Farhoomand, 2008, p. 9). In China, Alibaba. com toppled EachNet, " an older rival backed by global leader eBay", (Farhoomand, 2008, p. 1).

The future of Alibaba. com seems bright due to a combination of the positive influence of its competitive strengths and effective strategies. According to Farhoomand (2008), Alibaba. com has numerous strengths which serve as its competitive advantages over its rivals. These strengths include the following:

(1) it had effectively " built a premier brand in the e-commerce domain,

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boasting the highest traffic among all online B2B marketplaces”; (2) it “ focused exclusively on the highly lucrative SME sector”; and provided “ tools and solutions tailored to SMEs, Alibaba. com was confident in the value proposition of their service offerings” ; and (3) “ its sales force and customer service support in attracting and retaining users, especially those who paid for subscriptions, were excellent.”

## **5. 0 Conclusions**

The results of the critical examination of the various information regarding Alibaba. com, including its strengths and achievements only indicate that Alibaba. com should remain a dominant player in the B2B marketplace category of eCommerce. Its solid financial standing would help it whether the uncertainties of the future which is largely brought about by the stiff competition in the industry. Moreover, its sound and innovative business model is rather hard to copy, making it difficult for new entrants to compete with Alibaba. com. With respect to its key competitor, Global Sources, Alibaba. com only needs to continue to innovate and diversify its businesses in order to gain competitive advantage over Global Sources and other international rivals.