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**CHINESE E-COMMERCE MODEL**

**Using ALIBABA as a case study**

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## ABSTRACT

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<p>This report aims to analyze Alibaba's e-commerce mode. With the development of internet technology, e-commerce is attracting more and more attention from governments, businesses and individuals which is one of the major reasons for Alibaba's quick development. The author has seen the importance of e-commerce and important role of Alibaba in e-commerce field. This report will start by introducing Alibaba briefly. And then the major theories and concepts used by the report will be analyzed, especially e-commerce, PEST framework and Porter's five forces model. In addition, details of Alibaba's e-commerce mode, problems of its mode will be provided in the following paragraph. Based on this situation, several suggestions will help Alibaba to resolve its problems. Literature review, theoretical research and practical analysis are two major approaches to analyze its e-commerce mode. In this way, Alibaba can make further progress in the future.</p>		

### Key words

Alibaba, B2B, e-commerce mode, PEST, Porter's five forces model, suggestions

**ABSTRACT**  
**CONTECT**

<b>1. INTRODUCTION</b>	<b>1</b>
<b>2. MAJOR THEORIES AND CONCEPTS OF E-COMMERCE</b>	<b>3</b>
<b>2.1. Theories about e-commerce</b>	<b>3</b>
<b>2.1.1 Definition and classification of e-commerce</b>	<b>3</b>
<b>2.1.2 Development and application status of e-commerce</b>	<b>4</b>
<b>2.1.3 Basic structure of e-commerce</b>	<b>5</b>
<b>2.1.4 Characteristic and strengths of e-commerce</b>	<b>6</b>
<b>2.2. Theories about B2B e-commerce mode</b>	<b>7</b>
<b>2.3. Management model for e-commerce company</b>	<b>8</b>
<b>2.3.1 Strategic models</b>	<b>8</b>
<b>2.3.2 Tactical models</b>	<b>10</b>
<b>3. THE ENVIRONMENT ANALYSIS FOR ALIBABA GROUP</b>	<b>12</b>
<b>3.1 PEST framework</b>	<b>12</b>
<b>3.2 PORTER's five forces model</b>	<b>15</b>
<b>4. THE CONSTITUTION AND PROBLEM OF ALIBABA GROUP'S E-COMMERCE MODE</b>	<b>17</b>
<b>4.1 The basic framework of ALIBABA's e-commerce</b>	<b>17</b>
<b>4.2 The operation mode of Alibaba</b>	<b>18</b>
<b>4.3 Problem of ALIBABA's e-commerce</b>	<b>22</b>
<b>5. RECOMMENDATION FOR ALIBABA</b>	<b>25</b>
<b>6. CONCLUSION</b>	<b>28</b>
<b>REFERENCES</b>	<b>29</b>
<b>APPENDICES</b>	
<b>GRAPH</b>	
<b>GRAPH 1. Online trading mode</b>	<b>17</b>
<b>TABLES</b>	
<b>TABLE 1. The framework of Alibaba's PEST</b>	<b>12</b>
<b>TABLE 2. PORTER's five forces model of Alibaba</b>	<b>14</b>

## 1. INTRODUCTION

When human beings enter into 21st century, with the accelerating of economic globalization, development of internet technology and networking, e-commerce develops quite fast which influences people's life and work around the world. The trend of e-commerce development cannot be held back. Until the late 2013, the Chinese e-commerce market transaction quota has amounted to 10.2 trillion RMB which increased another 29.9% compared with the previous year. And the direct e-commerce service staff was 2.35 million while the indirect employment population was over 16.8 million. According to Iclick statistics, the transaction size was 12.3 trillion RMB in 2014 which increased another 21.3% while online shopping increased 48.7%. The social consumption retailing quota broke through 10% of the total amount which drove e-commerce development on a further progress. In addition, online travelling increased another 27.1% and local life service O2O increased by 42.8% (Li 2013). Alibaba Group, famous for its e-commerce service meets fierce competition in current marketing environment. B2B e-commerce mode is quite popular now.

It has entered into market introduction phase. Chinese e-commerce market transaction size can be shown in appendix 1. With such great potential consumption power, Alibaba must concentrate on higher productivity, lower operation cost, more qualified service and more business opportunities. However, as the Chinese B2B e-commerce environment is still incomplete and it is questionable for its future prosperous in e-commerce industry. As a result, it is critical for Alibaba to make rational analysis and resolve its existing or forecasted problems to ensure its future better development. This report will analyze Alibaba's e-commerce mode based on several concepts and theories. Hence, its problems can be demonstrated and several solutions can be provided. At last, an overall conclusion will be made.

This report will practically use the following ways to analyze B2B e-commerce model. Literature analysis method. By consulting large amount of literature material (library books and journals, many professional websites, e-journals and full-text search etc), summary and analysis can be made when combining with previous scholars' achievements

Theoretical research and practical analysis are combined together to analyze Alibaba's e-commerce mode. The first section will make a brief introduction of the meaning of selected topic, research method and basic framework. Besides, as Alibaba mainly uses B2B e-commerce mode, this report will attach more importance to B2B mode in this part. Secondly, it will make an introduction of Alibaba Group and e-commerce theories. Thirdly, it will analyze Alibaba's e-commerce mode.

Fourthly, statistics principles will be used to analyze Alibaba's e-commerce strengths and problems. And then it will bring up several development countermeasures and prospect forecast based on theoretical research and empirical analysis.

## **2. MAJOR THEORIES AND CONCEPTS OF E-COMMERCE**

This report will mainly discuss the theories of e-commerce and B2B e-commerce mode. It will also talk about the theories about the B2B e-commerce mode and the management mode for e-commerce company.

### **2.1. Theories about e-commerce**

It will analyze its definition and classification, development and application status, basic structure and features and strengths of e-commerce.

#### **2.1.1 Definition and classification of e-commerce**

E-commerce mode is a brand-new commercial mode which is based on internet, electronic bank payment, customers' data and account settlement for both transaction parties. As the product of economic and network globalization, it is an instrumental reform for traditional commercial activities from information technology. The concept of e-commerce was originated in the 1970s (Einhorn 2009). At that time, several giant corporations built internal computing system to achieve information sharing among institutions and business partners of which the process was called EDI (electronic data information exchange). With data flow, corporations can avoid human mistakes, reduce cost and improve efficiency. It is estimated that more than 95% large corporations are using this technology in the world. EDI was and is the basis of e-commerce (Dai&Kauffman 2002). In simple terms, e-commerce refers to the process of business activities by computer or some certain computing network among two or more than two parties. With advanced information networks, EDI can connect every transaction activity and trade affairs organically which include the business

activities among corporations, online retailing industry and digital processing process in financial industry.

E-commerce has a wide and narrow meaning. In broad sense, it refers to the application of electronic tools in business activities, such as electronic business activities, e-government affairs and electronic military. In narrow sense, it is general term of commodity exchange activities with high efficiency and low cost by using electronic tools due to the control of information technology and business principles (Gang-lan, Xiang-hua& Huang 2009). According to commercial mode of operation, e-commerce can divide into complete e-commerce and incomplete e-commerce. The former refers that the whole transaction process can be completed and achieved by e-commerce. And incomplete e-commerce cannot fully depend on e-commerce to achieve and complete all the transaction procedures. It cannot close the deal without external aids, such as logistics and delivery. According to the service domains of e-commerce, it can be divided into five categories: B2C (business to customers), B2B (business to business), B2G (business to government), C2C (customer to customer), C2G (customer to government) and etc (Grabe 2000). the objects of e-commerce can be materials, or virtual objects or some certain service.

### **2.1.2 Development and application status of e-commerce**

In August 1994, NetMarket completed the first online retailing transaction the first time. For the past twenty years, most businesses, especially in developed countries have applied e-commerce to their daily business. According to the recent statistics in CNNIC, until June 2014, the number of Chinese netizens is about 632 million.

The popularization rate of internet is 46.9% which increased another 1.1% when compared with the last year. Based on web economy, new form of currency and new economic rules and new consumer behavior has generated which made Alibaba

successful (Hong-chao 2007). With the development of economy, more and more customers will engage themselves into e-commerce filed.

### **2.1.3 Basic structure of e-commerce**

E-commerce system is composed of many system roles. Under the condition of e-commerce, every party collaborates through internet to communicate with each other and make business. The major roles in e-commerce system are demand side, suppliers, payment center, certificate authority, logistic center and e-commerce service providers (Popper 2014). Thereinto, demand side can be corporations or individuals who can purchase or buy products or services through e-commerce system. Similar as the demand side, suppliers can also be corporations and individuals through e-commerce. The function of payment center is to offer capital settlement and payment service for suppliers and demand side. Generally, online banks play a role of payment center. Certificate authority is responsible for issuing and managing digital certificates for all participants which are acted by third party institutions and not make profits during the bargain. Logistic center will deliver tangible products from suppliers to the designated place of the demand side in time and track the dynamic flow of goods. Electronic service providers offer network access service, information service and application service (Lu, Zhao & Wang 2010). All the participators do business based on e-commerce network.

The bottom of e-commerce is internal information system, such as EDP (electronic data process), MIS (management information system), DSS (decision supporting system) and BI (business intelligence). Then e-commerce is supported by its basis platform, such as system management, safety management, spots management, transmission management. Hence, it can set up internal safety environment to achieve the separation of internal information system and external network.



#### **2.1.4 Characteristic and strengths of e-commerce**

With the aid of e-commerce, corporations can have flexible transaction approach and fast delivery approach. Hence, the internal management process can be optimized and products and service can be provided in the market with more convenient way and promote social productivity. Compared with traditional commerce, it has characteristics of market globalization, personalized demand, business integration and equal business opportunity (Martinsons 2008).

- **Market globalization.** Internet enables the commodity and information exchange not limited by time and space. Anybody can use e-commerce service to make electronic business any time. Corporations can expand its business by internet to the world while consumers can purchase their beloved products or service on a global basis.

- **Personalized demand.** In e-commerce environment, customers show more interests in personalized products range and service quality. Simultaneously, technology innovation can enable corporations' process business automatically so that customers can gain service with a more convenient method than before. Such convenience creates condition for personalized demand.

- **Business integration.** It can be reflected on the integration and unification of business processing for corporations. It can regulate the working procedures; integrate workmanship operation and electronic information processing as a whole which can utilize human resources and material resources. Secondly, corporations can offer customers with much information, and show products visual image, introduce products function and spectrum; organize production based on customers' demand, guide customers to directly participate with product design and customization. In addition, it can help corporations build close partnership with downstream.

- **Equal business opportunity.** The application of e-commerce can bring equal opportunities for human being, middle and small corporations. As an open labor market, large commercial system, expensive advertisement expenditure and numerous marketers are not required. Only with internet WebPages can the corporations open

the market. Middle and small corporations can gain more profits from existing monopolized market.

## **2.2. Theories about B2B e-commerce mode**

From the above analysis, B2B, B2G, B2C, C2C, C2G are the major mode in e-commerce field. B2B e-commerce mode is taken by Alibaba Group to a large extent. With the development of B2B e-commerce, international scholars have made wide research and discussion on it. B2B Marketing is one of the best masterpieces which is written by Barry Schnitt, the CEO of Directch I eMerge corporation. He stated the principles of B2B marketing, plan strategies and strategies (Ščeulovs & Gaile-Sarkane 2010). He also pointed that hints occurrence, events marketing, reply, orders production, customers etc can be reinforced by internet marketing. B2B internet marketing mode will be widely accepted by B2B. Schnitt also made seven internet marketing strategies for B2B to improve operation profits: use the internet events to advertise their products and service; use internet production and judgment hints; generating orders, completing rely, establish virtual community on the internet, create management collaboration plan and reinforce the relationship with customers by internet (Qin 2010).

Don Peppers and Martha Rogers are the founders of one-to-one marketing and they believed customers share is the key to corporations' success. And purely gaining customers are less important than maintaining and increasing customers' population. The Future of One-to-one, Corporations and One-to-one B2B explain the customers' development strategies in B2B world. They also bring up four procedures to build and cultivate better customers' relationship: recognize the target customers for corporations, classify the customers according to value and demand, interact with clients and customize products for clients (Paré 2003).

There are many B2B e-commerce mode and three famous modes are listed below (Piao, Han & Wu 2010).

- Kaufman & Walden mode. It was brought up by Kaufman and Walden from University of Minnesota. From the perspective of economy, composed of technology, market and product commercial flows with mutual relationship and macro economy, B2B platform can enable corporations enjoy most convenient service and becomes more flexible in internet market.

- Turban.etal mode. This mode is composed of three parts: three layers, one foundation and one center. Three layers are technology, social and environment and market and economy layers; one foundation is the influence, expansion and regional development by e-commerce; center refers to e-commerce strategies.

Choi three dimensions understanding mode. It is brought up by Professor Choi in Austin e-commerce research center. Starting from the economy, it classifies the market entity, products forms, and transaction process.

### **2.3 Management model for e-commerce company**

In this part, two parts of management models will be used, strategic models and tactical modes. Through this two parts of models, e-commerce company can have a full assessment.

#### **2.3.1 Strategic models**

Basically, strategic models include a strategic plan or model that designed to improve a certain progress. Company uses strategic models to meet and achieve its goals. It's known by all that the perfect strategic models are not exist. Company just takes what they think important into account, and formulate their own strategic models based on fixed patterns.

Examples of the strategic models:

- SWOT analysis
- PEST analysis
- Porter's five forces analysis
- Value chain analysis

SWOT analysis is a simple but wide used analysis tool that can help company know the strength, weakness, opportunity and threaten. SWOT also consider both internal and external factor, the strength and the weakness are internal to the company, the opportunity and the threaten are external to the company. It's better to use in a project or an activities instead of in whole company level. Because a project level is more practicable.

PEST analysis is always used to analysis the macro-environment. It can help the company know what kind of situation they face. PEST can be expressed in four factors, Policy, Economy, Society and Technology.

Political factors included the government policy and regulation. If the government give some industries tax relief, it's a good influence to certain industry. Economic factors included the economical index, like economic growth, inflation and deflation, interests rate. Social factors included the social sustainable, the population growth, age distribution. Technological factors can be predicted the barrier cost that certain company want to enter into a new market.

Porter's five force was put forward by Michael E Porter in 1979, it's a framework to analysis and evaluate the strength of the company. In Porter's opinion, there are five forces can decide the competition of the market. The five forces are:supplier power, buyer power, competitive rivalry, threat of substitution and threat of new entry. Company always use the Porter's five force to analysis whether a new product can be

profitable or not in the market, or they can know where they have the strengths and weaknesses

Value chain analysis is a way to know how the products or activities create value for customers. In this analysis, company's activities are divided into different parts of fields, which means the company can assess their internal capabilities by evaluating each of its fields.

### **2.3.2 Tactical models**

Tactical model is a short term model that put emphasis on different parts of the company. Managers want to implement this kind of model to know what different departments should do to help the company achieve more profits.

The examples of the tactical models:

- Benchmark
- E and O theories
- The 7-s framework
- Six Sigma

Benchmark is a quality measurement of company's policies, products and uses of strategies. The Benchmarking can help managers know where the improvements are needed. After that, the managers can do some changes in certain place and get the better performance. It's very useful when the company happen to a investment. The portfolio manager can make decision about what kind of goals can achieve through the benchmark. This also help the investor to know the potential risk and the cost of the risk, then the investor can compare and consider if he willing to take this risks.

E and O theories represent two approaches to change the company. E theory is about company's economic value which mainly refers to shareholder's value. It's a change

driven from the top and relied on company's structure and systems. O theory pay attention to every individual's ability. Company can empower their employees continuously and let them make some progress. Theory E is more common than the theory O, because the external market will push the boards to a rapid development. This kind of change strategy are always related to downsizing and restructuring. Meanwhile, theory O sometimes can support the theory E, the manager believe that corporate culture can effect employee's behavior so that employees can take the best use of their capability. The sum of every employee's effort is the key to success and improvement.

The 7-s framework was developed in 1980s by McKinsey consultant Tom Peter. It is a watershed way in thinking about organizational effectiveness. It can analysis a company or an organization by concerning 7 key internal elements which are strategy, structure, shared value, style, staff and skills. Under this evaluation, the manager can know whether these seven factors combined effectively or not to get company's goals. The core point of this model is if there is a change in any of the seven factors others will change as well. The model is mainly applied to help company facilitate some changes and new strategies.

Six sigma is a tactical management method developed by Motorola. It has two sub-methodology which are DMAIC and DMADV. DMAIC process including defining, measuring, analyzing, improving and controlling. It's a system used for existing products and services. While the DMADV system including defining, measuring, analyzing, designing and verifying. It's a system applied to develop new products. Both of their objectives are to reduce defects in products and services. After using Six sigma company can know their customers better and give them perfect service and products.

### **3. THE ENVIRONMENT ANALYSIS FOR ALIBABA GROUP**

Generally, environment analysis is composed of macro environment analysis and microenvironment analysis. PEST framework can help corporations control macro environment from political economic, social and cultural and technological aspect. Hence, their influence on organizational objectives and strategic formulation can be evaluated (Xu 2013). And Porter's five forces model can be used to analyze Alibaba's microenvironment.

#### **3.1 PEST framework**

The PEST can be expressed in terms of four factors: Political, Economic, Social, Technological. The acronym PEST can be used to describe framework for the analysis of these macro-environmental factors.

TABLE 1. The framework of Alibaba's PEST

Political environment	Economic environment	Social and cultural environment	Technological environment
<ul style="list-style-type: none"> <li>● China's entrance in WTO</li> <li>● Government support</li> <li>● Supporting policy on e-commerce</li> </ul>	<ul style="list-style-type: none"> <li>● acceleration of globalization integration</li> <li>● fast development of SMEs</li> <li>● Increasing global market</li> </ul>	<ul style="list-style-type: none"> <li>● Trend of online shopping</li> <li>● Increasing transaction among corporations</li> </ul>	<ul style="list-style-type: none"> <li>● Establishment of B2B,B2C,C2C platforms</li> <li>● Availability of search engine and online service</li> </ul>

The first one is the political factor. Since China entered into WTO, Chinese government strives to promote e-commerce business which can support many e-commerce corporations gain further development, such as Alibaba. In addition, as the head office of Alibaba is located in Hangzhou, China, the local government shows great appreciation for Jack's contribution to the e-commerce filed. What is more, government recently published the notice of relevant policies and views on cross-border e-commerce retaining export, targeting on connecting e-commerce and market exchange and international e-commerce center which will promote Alibaba's development as a listed company (Qing 2008).

From the economic aspect, there are a large number of small and middle corporations in Zhejiang and Jiangsu provinces. With so many products here, market expansion is required. However, information asymmetry is the largest problem. Alibaba has noticed the situation and taken full advantage of the opportunity. Furthermore, with the acceleration of globalization integration, more detailed division of labor asks for



closer collaboration. Since China has entered into WTO, domestic economy, especially small and middle corporations begin to develop fast by overseas collaboration (Yazdanifard 2014). 21<sup>st</sup> century is an era of transmitting from labor intensive to knowledge economy. Alibaba meets the opportunity period of e-commerce development. Recent statistics show that the global mobile payment transaction amount was up to \$325 billion which increased another 38% compared with the previous year. The global market will increase by 40% (Ta, Pan, Lu & Huang 2009). The mature development of Chinese related industries and foreign e-commerce provides a beneficial economic environment for Alibaba.

With the development of economy, online shopping is not a new for modern society. The convenience and efficiency of online shopping brings up the development of internet transaction. Except the powerful marketing influence in consuming market, Alibaba has taken full advantage of the time and space as the leading commercial platform around the world. In addition, with people pursuing spiritual life, the internet market is expanding continually and the number of netizens is increasing sharply, as well as the internet market transaction among corporations (Zhao, Wang & Huang 2008). Thus it makes Alibaba a competitive corporation.

The last one is the technological factor. Alibaba has built B2B, B2C, C2C and other e-commerce trading platforms, collaborated with many banks to build Alipay as online payment platform. It also provides small and middle corporations with search engine, online software service and other additional service which integrates business flow, logistics system, cash flow and information flow as a giant commercial service empire (Yang 2010). Therefore, Alibaba catches close pace up with the fast development of information technology to maintain advantages and avoid negative situation.

### 3.2 PORTER's five forces model

Porter's five forces model was brought up by Michael Porter in the 1980s. It believed that five forces can determine the competition intensity and degree which can influence the attractiveness of industries. The five forces are the threats of entrants and substitutes, bargaining power of buyers and suppliers and existing competitors (Porter 2008).

TABLE 2. PORTER's five forces model of Alibaba

Threats of new entrants	Threats of existing competitors	Threats of substitutes	Bargaining power of buyers	The bargaining power of suppliers
shortage of self storage and delivery system	Paipai.com, Yiqu.com	Traditional commerce mode	Strong bargaining power	More choice for selecting infrastructure hardware

- Threats of new entrants. The major threats for Alibaba are from the shortage of self storage and delivery system. With the development of Amazon and Joyo.com and Dangdang.com, all of them have set up numerous storerooms nationwide; the future C2C mode allows sellers to use storerooms to deliver goods to terminal users. Thus the logistic problem will be resolved immediately. And the logistic expenditure will reduce sharply, transaction speed increases, as well as the customers satisfactory. However, Alibaba has no advantage in this aspect which poses threats for its future development.
- Threats of existing competitors. For Alibaba in Chinese market, the most powerful competitors are Paipai.com, Yiqu.com. Three of them account for 95% of the B2B market. Besides, Paipai.com is the e-commerce transaction website under the

Tencent Company with large amount of users' resources. With deep integration of Tencent QQ and Paipai.com, it may be the most popular online shopping center which forms great threats for Alibaba. Yiqu.com is an early e-commerce website. With long history, and the collaboration with eBay, it may be the largest online transaction website as well.

- Threats of substitutes. As the largest online retailing in Asian Pacific website, it has millions of merchants and billions of qualified goods. However, with the development of economy, it may face more and more competitors. Traditional commerce mode is the largest substitute for Alibaba. The risks of online shopping are larger than entity shopping. Users of Alibaba may face problems of product quality, returned goods, exchange goods, loss of express etc. But entity shopping will be more convenient and faster. The product quality can be confirmed in the shop, as well as color and material. In addition, people spend several hours on television with many products advertisements. Such shopping approach is much simpler which forms threats for Alibaba.

- Bargaining power of buyers. Alibaba adopts free policy for users to register as VIP. With accumulating large amount of business demand information, then it offers service online business owners. They have been accustomed to relying on Alibaba to do business. After achieve the goal of "Meet at Alibaba", in order to realize "work at Alibaba", it takes advantage of Chinese suppliers and Chengxintong etc to provide information for users which limits their future behavior. In order to attract more charged members, the promotion strategies Alibaba gives other e-commerce operators some bargaining powers for buyers.

The bargaining power of suppliers. With the development of internet technology, more and more hardware producers come into being. Therefore, Alibaba have more choices when selecting infrastructure hardware. In addition, the exchange cost of suppliers is quite low for Alibaba. Speaking of its software, Alibaba has world class elite groups with strong creativity. For the contents service, it can offer online platform, words and image contents provided from users free. Due to its popularity, it has tremendous users which results in low bargaining power of suppliers.

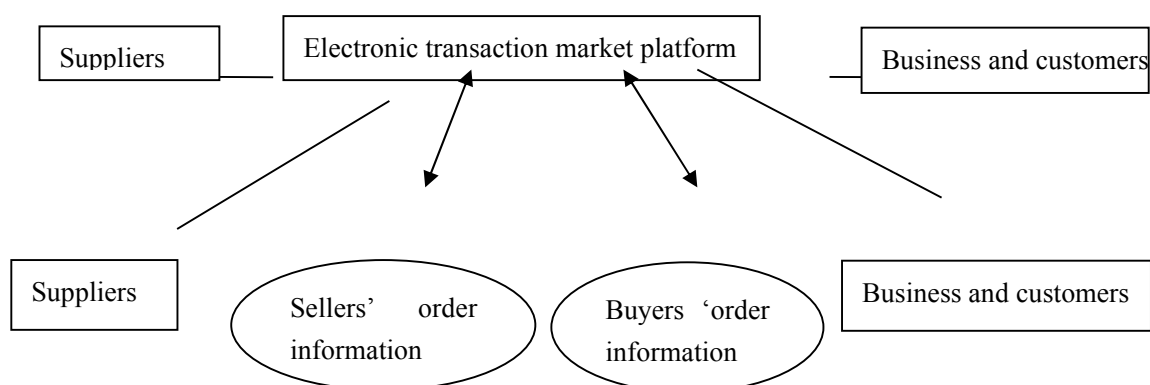
#### **4. THE CONSTITUTION AND PROBLEM OF ALIBABA GROUP'S E-COMMERCE MODE**

The basic framework and operation mode of Alibaba will be discussed in this part. After knowing that, some problem of the Alibaba will be mentioned.

##### **4.1 The basic framework of ALIBABA's e-commerce**

The objective of Alibaba Group is to build the largest and most active online trading market so that every middle or small corporations find it not difficult to do business. In the initial stage, it has clear business mode which is different from the early internet company which is driven by technology. The founders of e-commerce are lovers or talents of computer or communication technologies. They create distinctive websites to amuse themselves primarily, and then explore possible internet service mode. The founders of Alibaba, Jack Ma's particular experience enables its corporation has clear positioning (Palaga, Nguyen, Leser & Hakenberg 2009). With B2B e-commerce mode, its other forms and service or functions are surrounded it this mode and works upon it as well. its operation situation is clear in appendix 3.

As an electronic transaction platform, Alibaba website is a neutral online trading market B2B mode which is invested by the third party but not sellers or buyers. Matchmaking tradeoff mode is the most universal in Alibaba. Such mode involves many parties of sellers and buyers. It is also the integration of concentrated buyers and concentrated sellers mode. Its structure can be showed below (Huang, Kang & Duan 2013).



GRAPH 1. Online trading mode

Such online trading mode requires corporations have a full set of qualified electronic management system within the corporations and the system can achieve seamless joint with external environment so that the information integration of corporations' production, purchasing and sales can be made. The internal operation and transaction can be connected together so that information value can be improved. Generally, there are three aspects in Alibaba's e-commerce mode which are commercial mode, information mode and the construction of local websites.

#### 4.2 The operation mode of Alibaba

Jack Ma, the founder and the CEO of the Alibaba. He has clear positioning of his website. He created the first internet commercial information release station, China Yellow Pages from 1995 to 1997. Then he joined in Chinese international e-commerce center and successfully operated the Guofutong Information Technology Development Limited Corporation. Within one year, he developed a series of sites, such as official website of Ministry of Foreign Trade, online CHINA National Commodity Exchange Centre, online Chinese technology export fair, China Invest and online Canton Fair. In 1999, he set up research and development center in Hangzhou, with head office in Hongkong, founded Alibaba website (Lai 2010). The

current consumption power is clear in appendix 4. Thus it is important for Alibaba to promote its business. Starting from pure business mode, he connected large amount of risky capital and business partners to compose the online trading market. Several features can explain Alibaba's e-commerce mode.

Firstly, he concentrated on information flow and gathered large amount of market demand and supply information. Just as Jack Ma stated in China import and export fair stated, Chinese e-commerce would experience stages which are information flow, capital flow and logistic stage. Now it stays in information flow. Although the online platform technology is easy, few corporations are using it. In other words, corporations have no demand on online transaction. Hence, Alibaba just wants to develop its e-commerce step by step. In addition, the information that Alibaba provides is passive. Alibaba cannot guide corporations to find their required information automatically. They have to search for the information by themselves. The essence of B2B is to offer information for sellers and buyers (Guo 2006). Although Alibaba with large amount of true information can update information quickly, with passive and abundant information, they cannot be used effectively. Alibaba may send its registered users business opportunities express, it is hard for corporations to find useful information in short period. When they find what they need, the information may be out of date already.

Secondly, based on full investigation on corporations demand, Alibaba integrates and classifies the corporations' login information together which forms into its particular columns so that users can gain effective information and service. The major columns that Alibaba offers are business opportunities (there are more than 700 products categories in 27 industries in Alibaba for users to seek for business opportunities. Usually it can offer about 500,000 demand and supply information), product display (illustrated products information database are built for Alibaba's members according to products classification), corporations library (corporate web sites library, there are more than 40,000 corporations web sites so that users can search for trade partners by

search engine, get acknowledged of corporations' detailed information. members are free to apply into their corporations library and link with relevant category so that other users can get complete picture of their corporations), industry information ( members can subscribe the latest news according to various industrial information by accepting e-mails), price information (according to the industrial latest quoted prices and market price dynamic information), business society member (business club. Members can communicate with others about industrial knowledge. And coffee time can offer members with new topics and analyze how to make online marketing), commercial service (shipping, foreign currency conversion, credit investigation, insurance, taxation, trade agency and other consulting and service) (Bivolaru, Andrei & Purcaroiu 2009). All those columns can provide users with abundant and useful information which composes the subject of online transaction market.

Thirdly, Alibaba takes the localization websites construction method. Targeted on different countries, Alibaba uses different languages which make its information easy to read. Such convenience and appetency integrates every market together. Alibaba has set up four correlative websites: <http://www.alibaba.com/> (English international website aims to provide professional service for global business), <http://china.alibaba.com/> (simplified Chinese websites focuses on Chinese mainland market service), <http://chinese.alibaba.com/> (global Chinese traditional websites concentrates on Taiwan, Hong Kong, Southeast Asia and overseas Chinese business), <http://kr.alibaba.com/> (South Korea website focuses on Korean users). The coming Japanese, European and South America websites will offer its members an integrated international trading platform with commercial information and personalized businessmen communities from 178 countries and regions (Chen 2014). It will help Alibaba expand its market further.

Fourthly, in the initial stage, Alibaba websites lower the entrant barriers for members to attract free members to login in its platform so that it can convert business flow and active market. When members are scanning the information, Alibaba can bring up

continual information flow and business opportunities. Until June 2012, the number of members was up to 50 million from 202 countries and regions. There are over 2,500 business men registering in Alibaba. Most of them are small and middle businesses and free membership system is the major factor to attract them. They will not miss the low cost opportunity to grasp business opportunities when facing the fierce competition market. Hence, it can bring many demands and suppliers for Alibaba to expand its online transaction platform. The monthly page views are over 45 million, and the pieces of transaction opportunities are over 500,000. Over 300,000 inquiries are coming every month (Du, Lu, Wu, Li & Li 2013). It makes Alibaba develop quite fast.

Fifthly, Alibaba provide its members excellent market service by value-added service. On the one side, it can reinforce the service programs function in online trade market. On the other side, it can help Alibaba to gain profits directly by various approaches. Although it does not charge of its members now, according to Jack Ma's statement, his website is profitable. The major profitable columns in Alibaba are Chinese suppliers, delegation to design corporation's homepage, online promotion programs and Chengxintong. Chinese suppliers provide special inquiry from international buyers for Chinese businessmen by the transaction information platforms in Alibaba. Clients can delegate Alibaba to make one-off investment and construction of corporations' websites. Hence, Alibaba can help corporations to build independent domain name websites and link with Alibaba. Online promotion programs are composed of e-mail advertisements, flagship advertisements, hypertext reference and module advertisement. e-mail advertisements aims to send businessmen with the latest business information and their advertisements; hypertext reference will place advertisements into texts; the newly promoted Chengxintong programs can help users to get known of potential customers' credit status and find true online trading partners; the authentication of authority credit institutions can confirm the legality and business status of contact persons (Hu, Wu & Wang 2004). Alibaba can also show the certifications and honors of corporations and prove corporations' power by business



partners' good reputation.

The last but not the least, Alibaba uses moderate but successful market operation to promote Alibaba's brand value and financing capacity, such as Fobs Magazine. Alibaba aligned with Japanese internet investment corporation, Softbank, asked the CEO to appoint as chief advisor for Alibaba. By various successful propaganda activities, Alibaba is elected as one of best B2B websites, best trading websites and others for many times (Mahadevan 2003). With feasible and convincing commerce mode, Alibaba ranks in the leading place in growing e-commerce market and creates the most classical online transaction market successfully.

#### **4.3 Problem of ALIBABA's e-commerce**

Although Alibaba has made fast progress in the past few years and is regarded as famous business representatives in Chinese B2B e-commerce filed, such model also has many problems.

Firstly, Alibaba is lack of enough attention upon large enterprises market. So far, most of Chinese B2B e-commerce businesses aim to provide service by commodity publication and transaction platform which is suitable for middle and small businesses as they need B2B e-commerce platform to expand their market. But large enterprises have different demands with small and middle businesses because they have fixed customers and sales channel but face the troubles of strategies adjustment (Pan 2014). However, Chinese market environment is actually dominated by many large corporations. Hence, how to make B2B e-commerce mode adapt to their demand is a major problem so far.

The second problem is that Alibaba is lack of enterprises interaction based on information flow. Although Chinese economy development has provided e-commerce

development with beneficial conditions, the current e-commerce among corporations is not that popular in China. Due to the lack of full acknowledgment of full system on e-commerce, many corporations have made mistakes during the process because of simple recognition. They believe they can wait for the orders coming by themselves only by putting corporations' homepages and products categories (Plake, Schiemann, Pankalla, Hakenberg & Leser 2006). As the extension of traditional commerce, without interaction of information flow, e-commerce is only the publication of information. Most of them will be out of date if the situation goes on. Hence, most corporations will lose interest in B2B e-commerce. Therefore, how to take advantage of the published information from corporations and set up active or facilities corporations' interaction mechanism will be the key to future B2B e-commerce.

Thirdly, the degree of e-commerce safety is still low. Although the safety issue of e-commerce has been improved to a large extent, the continual appearance of virus, wooden horse and other hostile attacks and lack of various protective approaches, many corporations are lack of enough sense of security when they are implementing e-commerce. When talking about the world e-commerce development, the largest problem is the safety issue. The birth of internet is not for commercial objectives, but for the convenience to share internet resources. Due to the openness and common-pool, hackers and virus are spreading around on the internet. Simultaneously, many corporations' websites have many security holes because of backward or incomplete safety management system and professional maintenance personals. Their safety system will collapse once they are attacked by external environment which will influence negatively B2B's further development. What is more, Alibaba promoted Alipay in 2003 and updated it in 2005. As a kind of internet transaction payment tool, Alibaba has collaborated with Industrial and Commercial Bank, China Construction Bank, China Agricultural Bank and China Merchants Bank. Although the whole transaction procedures are supervised by Alipay to ensure both parties' capital and goods safety, there are large serious loopholes in its Active X GroupBox (Su & Zhang 2007). Although it fixed its remote login code and published new version of

installation programs, it can be indicated that Alibaba is not safe. In addition, there are millions of corporations information in its website, most of them are commercial secrets, it is a serious problem to protect its commercial secrets from leaking.

In addition, Alibaba cannot take rational use of internet resources. Fundamentally, the value sources of B2B e-commerce websites are from the utilized and feasible internet marketing resources, such as users' resources, commercial information resources, and websites click resources. With high visitors' volume and abundant demand and supply information, Alibaba has lowered its value of e-commerce platform and restraints its self-development because of the lack of application ability of its resources. The most two typical problems are listed below. The published commercial information from corporations is hard to find by other users which enables the loss of practical meaning of information publication. In addition, as a B2B website of e-commerce platform, Alibaba has forgotten to make its own business promotion when it is promoting for others' business (Wang, Zheng, Li& Meng 2008). The reason of this situation is related with the operation of websites. If Alibaba cannot get deep understanding of B2B websites operation ideas, it will bring about many corresponding problems, especially the waste of internet information resources and reduction of marginal profits.

Fifthly, Alibaba cannot control the corporations in its websites effectively. Alibaba and other B2B corporations aim to offer a transaction platform for businesses in every industry. However, if there is something wrong with the transaction, all corporations or clients will investigate and affix the responsibility for B2B corporations which will influence negatively their own development. The fundamental reason is because most corporations make interaction with B2B corporations by internet (Yuan 2013). Hence, B2B platform managers are lack of effective assessment of their qualification, capability and reputation. In the initial stage, it is rational to take loose entrant control to attract customers. But with the development of B2B transaction market and reinforcement of its impacts, if Alibaba cannot effectively assess and restraint its

corporations, it will directly lower its credibility of B2B platform.

## **5. RECOMMENDATION FOR ALIBABA**

B2B e-commerce is important battle for Chinese corporations to explore new market in 21st century. It is critical for Chinese enterprises or the national 1.3 million members in Alibaba to confirm B2B e-commerce strategies combining with practical condition. From the above analysis of Alibaba's e-commerce problems, there are several suggestions for its future development.

Firstly, Alibaba should make more contribution to increase its popularization in e-commerce industry and customize every corporation's B2B e-commerce plan. For most Chinese corporations, e-commerce mode or B2B are new terms for new economy. Alibaba should make detailed plan for their future development based on integrated strategies and promote e-commerce's features and advantages. The implementation of e-commerce requires analyzing corporations' nature and size. Based on building their online purchasing system, Alibaba can help corporations to construct independent purchasing transaction platform which will be a good development strategy. Sony and IBM and other large corporations have built their independent global purchasing system. Hence, Alibaba can start from their purchasing system. In addition, Alibaba should use information technology, especially internet technology to make business activities and resources management. The core of e-commerce is to management all the information with high efficiency; help corporations build information flow which is unblocked among internal corporations, business clients and suppliers. With effective management, added value and application, Alibaba can connect its clients, businesses and suppliers together and respond to its market with fastest speed and lowest cost. As a result, Alibaba can improve and reinforce its competitive advantage.

Secondly, Alibaba should optimize information service and make itself as a good information intermediary. It can set up press corps to collect and edit primary

commercial information and give feedbacks immediately to corporations to get acknowledged of them in the first time but not through other websites and newspapers. Hence, they can active information. In addition, information in Alibaba should be edited in the eyes of businesses and attaches importance to commercial nature. As Chinese e-commerce is still in the stage of information flow, Alibaba should make great contribution to corporations' professional search. Speaking of the information infrastructure construction, Alibaba should seek supports from the central and regional governments to take active part in investment and guide capital rationally. Latest high-speed information transmission network and breadboard internet should be built to increase internet speed and reduce network cost. Simultaneously, practical and feasible measures should be taken to catch up with the best e-commerce infrastructure.

Thirdly, Alibaba should pay great attention to internet safety issue. Hence, it must make optimal configuration of system hardware and software equipments to reduce security holes, formulate complete safety management system and set up an army of professional safety management team to design and maintain for system security to confirm the reduction of systematic safety loopholes to the minimum and take measures to protect and recover its system when facing attack. Stable operation of system can be guaranteed. Firewall settings should be constructed to separate internal network and external nameless visit to control and supervise information transmission. VPN (virtual professional network) can be adopted to protect the communication channels' safety. Targeting on privacy protection problems during electronic contracts connection and implementation process, Alibaba can take legal regulations and industrial self-discipline principles to define clearly of the rights and obligations of information collectors and information sources according to international common rules.

In addition, Alibaba should pay attention to its management and operation mode reform. It should strengthen its employees' power and capability, improve

communication efficiency, and eliminate unnecessary working contents to achieve smooth trans-department business flow. It is even more important for Alibaba and other giant e-commerce companies. Reorganized business processes should adjust the integration of market demand, corporations' strategies and every core business flow and confirm that every job can add their values from the eyes of customers. What is more, Alibaba should improve its informatization level. By introducing advanced contemporary integrated manufacturing system and enterprises resources plan system, corporations can achieve agile manufacturing, virtual manufacturing and personalized manufacturing and zero inventory so that cost can be reduced and existing customers can be maintained. Hence, Alibaba should start to set up customers' relationship management and supply chain management system which are suitable for Alibaba's organizational objectives to achieve the smooth communication with its trade partners. In proper time, virtual corporations can concentrate resources on the core and advantageous business. By taking interactive marketing mode, virtual context and customers' experience, smooth communication can be made to respond to customers' demand and offer customers with personalized products.

Alibaba should also develop mobile e-commerce business to adapt to the era. One of the hot topics in e-commerce filed in 2013 was mobile e-commerce. With the development of 3G technology, it is not a problem of mobile internet searching. In 3G era, SOLOMO (social local mobile) commercial mode will be future development trend. However, current mobile e-commerce still remains on entertainment and social intercourse and other layers. At the same time, mobile internet businesses concentrate more on consumers. For Alibaba, it should innovate new technology system and operation principles in the future.

## 6. CONCLUSION

This report has analyzed the theoretical frameworks and practical application of e-commerce for Alibaba. The largest strengths and best resources of Alibaba are its numerous corporation members and individual members. However, with the reduced gap among many e-commerce corporations, the competitive advantage of Alibaba will be lowered. For e-commerce industry in Chinese market, opportunities and challenges exist at the same time. So I use PEST mode and Poter's five force to carefully analysis the reason why Alibaba become so successful. Its success has special internal and external reason.

This report also analyzes its problems, such as the incomplete legal system, lack of enough network infrastructures, the degree of e-commerce safety is still low, the internet resources cannot be taken rational use of, its website cannot be cooperated effectively. Corresponding measures should be taken to help Alibaba to promote its e-commerce mode and gain profits in the future. For Alibaba, they should make more contribution to increase its popularization in e-commerce industry, optimize information service and make itself as a good information intermediary, pay great attention to internet safety issue, management and operation mode reform should be focus on.

Hence, Alibaba should make more contribution to its e-commerce development. And maybe one day, it will become the second Amazon.



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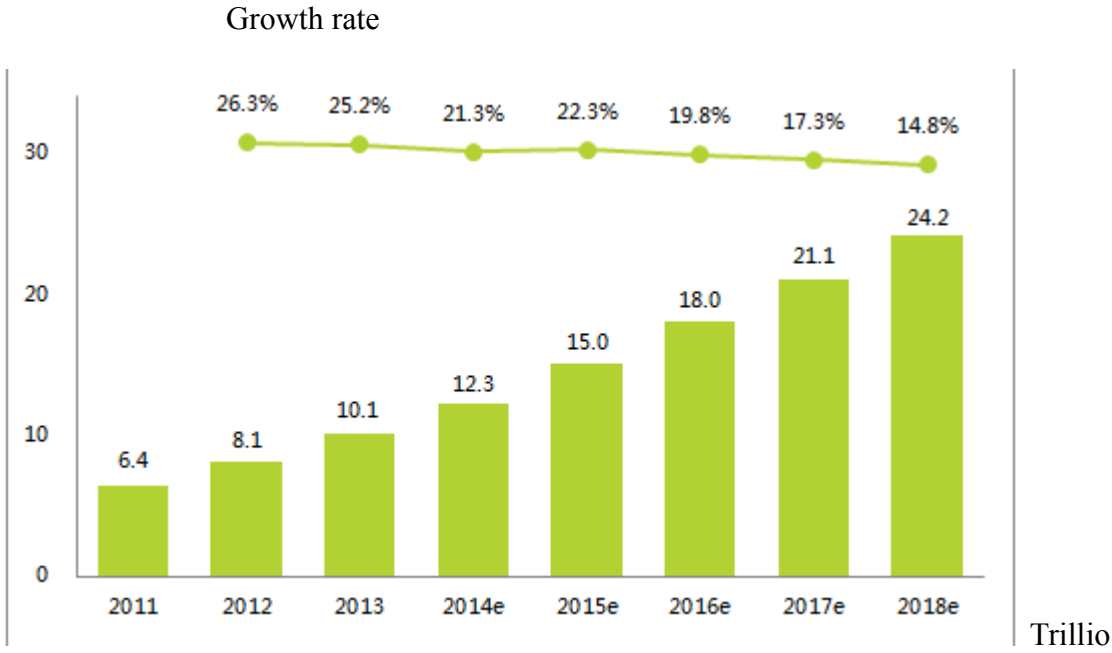
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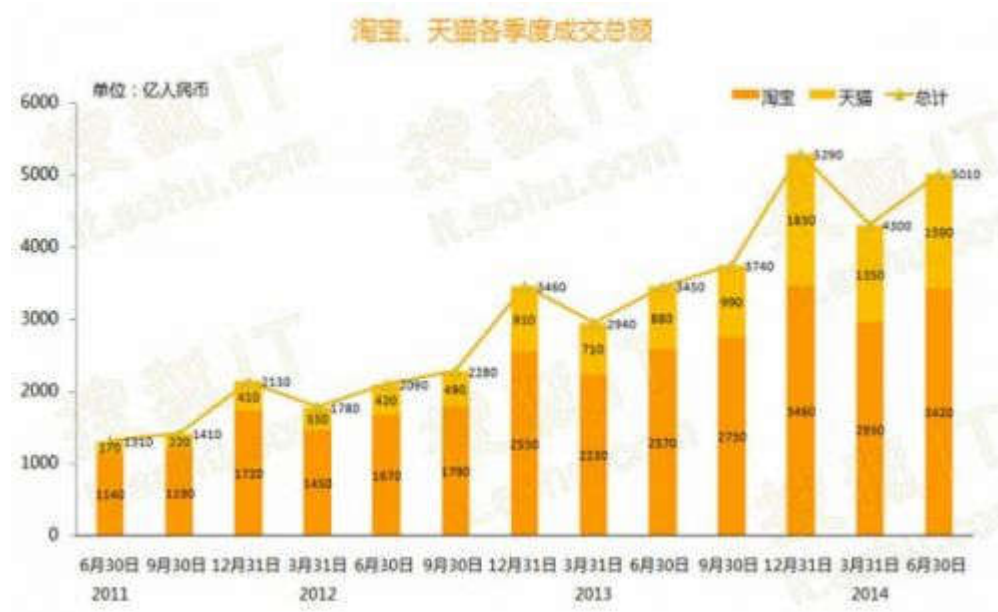
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Chinese e-commerce market transaction size



n

Total value of Alibaba



## APPENDIX 3

### The financial situation of the Alibaba

	Twelve Months Ended September 30,		
	2009	2010	2011
<b>Operating data<sup>(*)</sup>:</b>			
Revenue	\$ 730,336	\$ 1,298,229	\$ 2,344,973
Gross profit	\$ 534,974	\$ 986,455	\$ 1,563,979
(Loss) income from operations	\$ (39,460)	\$ (14,355)	\$ 325,343
Net (loss) income	\$ (19,932)	\$ 42,463	\$ 339,552
Net (loss) income attributable to Alibaba Group	\$ (57,346)	\$ (10,743)	\$ 268,004
	September 30, 2010	September 30, 2011	
<b>Balance sheet data<sup>(*)</sup>:</b>			
Current assets	\$ 4,399,571	\$ 3,491,753	
Long-term assets	\$ 2,436,976	\$ 2,993,329	
Current liabilities	\$ 2,660,043	\$ 1,562,840	
Long-term liabilities	\$ 58,679	\$ 134,160	
Non-voting participating redeemable securities	\$ 860	\$ 1,415	
Noncontrolling interests	\$ 338,419	\$ 406,805	

## APPENDIX 4

