

---

# Alibaba's Strategic Drift

Young-Chan Kim, Pi-Chi Chen

International Business and Economics Department, University of Greenwich, London, UK

---

**Abstract:** It is fundamental in both a theoretical and practical sense, to analyse the strategies of successful e-businesses who were formulated and operated alongside incumbent competitors. Thus, there have been an array of strategic arguments concerning the rapidly-burgeoning virtual powerhouse Alibaba, who amidst a sea of fortified competitors, found their ground to become one of the most prominent e-businesses of the decade. At the commencing stages, Alibaba lacked a specific strategic goal, aside from the ethnic-originated ecology scheme. Further mishaps arose even after the take-off stage, when Alibaba opted to adhere to the diversification strategy, an evidently unusual phase for a virtual firm. Hence, it is the subject of common debate as to whether Alibaba cited a definitive strategic goal which guided their progress, or whether they were merely the product of a breakneck growth in the Chinese economy. This research will show how a leading e-Commerce company Alibaba has built B2B/C2C business portal Taobao/TMall and has transformed its transaction system from zhifubao into yuerbao and how it propelled Alipay to become a leading financial institution in the thriving digital market. In addition, strategic diversification on Chinese digital business will be examined through Alibaba case.

**Keywords:** e-Commerce in China, Convergence and Divergence of Digital Strategy, Alibaba, Strategic Innovation

---

## 1. Introduction

In 1999, there were 18 gold-diggers whom ransacked the World Wide Web, in search of a new innovation that would shape the face of e-commerce. Based in a small apartment in the city of Hangzhou, led by a man of great persistence, Jack (Chinese name Yun) Ma; who had previously failed two university entrance exams, known as Gao Kao, in his homeland China, was eventually admitted into a under-performing university in Hangzhou. Since 1999, the company has walked hand in hand with the Chinese development phases, and will soon cement themselves as being one of the most successful IT derived industries to come into existence, in terms of their IPO rate and their market share. This is Alibaba, the first e-commerce company that formulated transactions that exceeded the value of \$1 trillion a year in 2012. (*The Economist* 23<sup>rd</sup> March 2013)

Since Alibaba as a firm is still in its infancy, it is dubious to acknowledge the nature of it via the use of a strategic theory, as traditional strategic theories are incompatible with the concept of e-commerce. As a result, the notion of the ecology concept, derived from James Moore's article of 'Predators and Prey: A New Ecology of Competition,' (1993) is the most coherent and akin to the development procedure undertaken in the firm's Jack year history. Thus, Moore's theory of 'A New Ecology of Competition,' within e-business will be utilised to comprehend the nature of Alibaba's strategical advancement until 2013, and her stance within the realm of e-commerce. Since 2013, Alibaba has adhered to the traditional diversification strategy, acknowledged by the 'Born Global Firm' initiative, as the basis for their ongoing globalization scheme.

In an era of greater interconnectedness in the digital world, B2B and B2C firms are commonly defined as being "business organisations that from inception, seek to derive

significant competitive advantages from the use of resources and for the sake of output in multiple countries" (Oviatt & McDougall, 1994). However, unlike the typical global firm, Alibaba has opted to synchronize their resources; in a bid to reap greater benefits from the sino-ethnics across the world who form the basis of Alibaba's initiative.

According to Johanson and Vahlne (1997), the incremental and sequential learning that is derived from the Uppsala model is often considered to serve as the foundation for the 'born global firms.' However, several researchers exhibited the fact that new global born firms are able to internationalise with ease, without adhering to the Uppsala gradualist approach (Rialp, Rialp, Urbano and Vilant, 2005). An exemplar of this in recent years, has been Alibaba.

The notion of a Business Ecosystem, which was initially formulated by Moore, states that companies co-evolve capabilities around a new innovation; they work cooperatively and competitively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations. He further divided the evolution of a business ecosystem into four distinct, individual facets: birth, expansion, leadership, and self-renewal. Thus, concluding that companies are viewed not as a member of a single industry but as part of a business ecosystem that interlinks across a plethora of industries. A business ecosystem, alike to its biological counterpart gradually moves from the notion of a chaos to a cosmos, thus resulting in a more structured community.

Based on Moore's theorem of a business ecosystem, there are in-turn four evolutionary stages that a firm goes through prior to burgeoning into a competent business ecosystem. To begin with, during its birth; the cooperative challenges that the firm encounters is working with customers and suppliers to define the new value proposition around a seed innovation. In addition, the competitive challenges it may face are protecting their ideas from others who might be working

towards defining similar offers, and tying up critical lead customers, key suppliers and important channels. Next, once a firm gets to its expansion stages, one must bring the new offer to a larger market by working with suppliers and partners to scale up supply and to achieve maximum market coverage. However, it must also defeat alternate implementations of similar ideas, and ensure that their approach is the market standard in its class through dominating key market segments. Then, in its penultimate stage which concentrates on the matter of leadership, they must provide a compelling vision for the future that encourages suppliers and customers to work as a singular unit to continue to improve on the complete offer. One must also maintain a strong bargaining power in relation to other players in the ecosystem, including key customers and valued suppliers. Finally, on the concluding stage of self-renewal, the cooperative challenges that may arise, involve working with innovators to bring new ideas to the existing ecosystem. Furthermore, the competitive challenges it may encounter, involve maintaining high barriers to entry to prevent innovators from building alternative ecosystems. They must also maintain high customer switching costs in order to buy time to incorporate new ideas into their own products and services, a feat which Alibaba, yearns to follow.

## 2. Birth (from 1995 to 2003)

To begin with, in the year 1995, with the invention of the World Wide Web, a new paradigm of e-business opened up for Mr. Ma, which allowed him to acknowledge a loophole by which he was able to idealise and revolutionise e-commerce in China. This caused him to initiate a small e-commerce business, which went by the name of 'ChinaPages.com', which provided website development and indexing services to local entrepreneurs. However, due to the differences in strategic vision, Ma and eight members of the core development team eventually left the organisation in favour of a new idea.

This eventually led to the formation of 'Alibaba.com', which was essentially analogous to the previous ChinaPages.com. As a result, we can acknowledge that there was a deprivation of strategic innovation, which differentiated them from subsequent firms.

In the commencing stages, in 1999, Ma and his crew had an initial budget of 500,000 RMB, 200,000 of which was derived from Jack Ma's pocket.

In July 2000, the company was featured by *Forbes*, as its cover story as a leading B2B firm, and it was again singled out in 2001, as being one of the 'Best of the Web.' Ma, himself, was further lauded as being one of the 100 Global leaders for tomorrow by the *World Economic Forum*. However, at that time, Alibaba.com solely derived its revenue from online advertising, and had been operating in the red before 2001, when they eventually recorded their first ever profit on a cash-flow basis. Thus, one can conclude that Alibaba's role as the 'middle man,' was neither elaborate nor grandiose as it portrayed. As they solely created a platform to

which sellers would upload their products, businesses would upload their requirements, and supplier-buyer matches would be made, there was no unique methodology that was eligible in generating a profit.

On the contrary, as a result of the 'dot com' burst, external manufacturing firms, especially in America, sought after cheap goods. Thus, they averted to utilise Alibaba, which enabled them to gradually increase their market share, as a result of the avid desire of foreign firms. All in all, one can acknowledge that it was predominantly due to the external factors, alike to the dot com burst, that stimulated the advance of Alibaba, not the success of a distinct strategic objective, as perceived by many. In addition, owing to China's entrance into the World Trade Organisation in 2001, mediocre firms opened their doors to American suitors, for which Alibaba served as the gateway. This was demonstrated in Ma's interview with Ignatius, when he stated that, 'There were three reasons why we survived. We had no money, we had no technology, and had no plan.'

According to Allen and Phillips, family ownership brings forth an assortment of problems when obtaining resources, whereas corporate ownership provides small and medium enterprises with an easier access to financial, technological or commercial resources and capabilities (2000). As a rather family orientated business, (although Alibaba was initially made up of 18 individuals, it was nonetheless, perceived as being Jack Ma's private venture) Alibaba attempted to solve their financial conundrum via benefiting from the owner's personal ties, rather than through corporate strategy. This lasted until 2014, when Alibaba was listed on the US stock market. Thus, Ma's statement in his interview with the Business Week, that Alibaba had neither money nor strategy was indeed correct.

Alibaba itself remained in the 'wilderness' not only strategically but financially, until May 2003, whereby they introduced the online shopping website 'Taobao', which averted them towards success.

## 3. Expansion (Between 2003 & 2008)

To begin with, during the course of the last two years, 87% of Alibaba's clients globally, were concerned about the notion of trust regarding the nature of their goods, and thus, Ma utilised this as the loophole to obtain capital. As a result, the new strategy that was known as the 'Trust Passed Scheme,' involved the firms paying a deposit of 2300 RMB, which guaranteed their status as trustworthy firm. Owing to this, by the end of the 2002 spell, Alibaba reaped 6 million RMB in profits.

In May 2003, the notion of a 'free' platform where one could trade merchandise, liberated from fees and commissions, was born; which was a by-product from his trip to America. This was known as 'Taobao'. Soon after its formation, it gradually began to strengthen in caliber, and soon displaced eBay China, as the key player in the fledging market of e-commerce. It is stated that Taobao hold a colossal 60% market share with 1.1 trillion yuan (US\$178 billion) in their respective

field. They achieved this via the generic Chinese methodology, whereby they prioritise the voice of the audience; who has purchased the product afore, when deciding whether or not they would buy it for themselves.

The most influential virtual businesses today tend to be those that intertwine distinct groups of entities in a business network to form a cohesive unit. The prevalence of inter-network, as opposed to inter-firm competition, further galvanizes a firm's ability to thrive. (Pierce, 2009). What is commonly referred to as the sponsors of multi-sided platforms (hereafter MSPs), these businesses provide the infrastructures, services and rules that enable transactions between network members (Iansiti & Levien, 2004). A MSP is a commercial network, linking suppliers, producers, intermediaries, customers, and producers of complementary products and services (commonly known as 'complementors') (Teece, 2007). They are held together by a formal contract and mutual dependency (Pierce, 2009).

Cross-side network effects must exist between the different groups of entities on a MSP, as they are unable to establish themselves independently. Hence, MSPs, have to build on the notion of an two-sided market with varying forms of economic behavior that arise from the dichotomy between the buyers and sellers. (Rochet & Tirole, 2006). Furthermore, both sides of the MSPs are managed by a sponsor that is liable for providing the required infrastructure and the relevant services that are required to stimulate interactions and triangular exchanges between the different groups of entities. They are further required in establishing the rules that govern each individual transaction and to enable the coordination of network activities to take place with ease (Boudreau & Hagiu, 2009). However, a key point of difference is that, unlike these two-sided markets, MSPs are more intricate in that they serve a variety of distinct entities with diverse interests.

The ethnic originated MSPs for both entities are unique facets of Taobao, such as its concentration on the sino-ethnic market, which led to its eventual growth. Akin to the notion of a Chinese takeaway, which are present all over the globe; Taobao enrolled the service of sino-ethnics around the world, as a supplier of multi-national products. This permitted them to minimise the service costs, and thus they were able to supply a copious array of products at a diminished price. Next, the fact that the service of sino-ethnics were utilised resulted in the value of foreign traders being minimalised; as 96% of Taobao merchants were of Chinese origin according to an anonymous source close to the company.

Contrary to popular belief that Taobao has the capacity to burgeon into a global firm, it is in essence, a Chinese firm for the Chinese people, due to its dominance by sino-ethnics around the world, which diminishes the need of foreign investors. Furthermore, the site itself is displayed in solely Chinese, which cements the fact that it prioritises the Chinese market above all. "There were three strategic factors that differentiated us from our foreign competitors". First, we provided tools like 'Wangwang' (which allowed transacting parties to haggle over prices), and Alipay (which helped

mitigate the greater mistrust of online transactions among Chinese firms), Second, we provided our service free of charge. Third, our website were designed to suit to our Chinese culture' (Company website, 2014). These unique strategies were however, unable to benefit the foreign sellers/buyers who had no intricate knowledge of the Chinese culture or language. Thus, this exemplified the fact that Alibaba was, as still is aimed at Chinese users, rather than the foreign market.

Next, the 'free,' nature of it; resulted in multiple merchants and customers alike flocking to shift their goods to the global audience. As it was the idyllic manner in which small businesses could generate a substantial profit without being suppressed by taxes. Furthermore, unlike its competitors such as 'Amazon.com.cn', Taobao prioritised small sized businesses, which enabled it to rapidly escalate its market share.

On the contrary, although Taobao itself is officially a free service; as demonstrated by the 'Trust-Passed-Scheme, in order for business to flow with ease, one needs to deploy funds for their respective businesses' to be of a higher calibre than that of their competitors. Thus, one can perceive that in essence, if one desires to generate a profit; the usage of funds is imminent.

Furthermore, the key factor which enabled to Alibaba, and Taobao to burgeon into a major player in the market was due to the 'Trust-Passed Scheme,' which was implemented in March 2002. This scheme dissolved the notion of mistrust among the buyers, as it cemented the statuses' of sellers as being both reliable and trustworthy.

The 'Trust-Passed Scheme,' in essence, was an internet marketing strategy, which was offered to members to give them priority and 'kudos,' among their competitors. Next, it enabled their items to be displayed afore that of others, thus giving them precedence. This was inevitably favorable as it entails in a greater quantity of sales. This is as, on a platform that processes 40 million visits per day, with 4.87 million registered users, priority is a vital element. Furthermore, post the initiation of this scheme; subscribers can gain access to 'Aliwang wang', an instant messenger platform that permits the buyer and seller to communicate instantly with greater ease. This essentially results in the production of a 'virtual community,' whereby the buyers and sellers are harmonious with one another and it further enables links to be established. It was natural to consider the notion of the asymmetrical power relationship between the buyer and seller, owing to the information problems regarding the product, whereby the seller knows a greater deal regarding the quality and calibre of the products. Hence, the payment initiative for buyers and the concept of holding the payment; until confirmation was given by the buyer, were accepted with great ease by Chinese C2C businesses, a scheme which Alipay invented. This was eligible to be carried out as Alibaba was at its birth, a trading directory, which interlinked buyers from around the world to suppliers in China (B2B business). Therefore, due to the nature of this scheme, they were able to reap suppliers of a higher quality to vendor their products in America, and through the passing of

the scheme to Taobao, they provided the blueprints for a Chinese originated transnational C2C business.

As mentioned afore, China joined the WTO in December 2001, and simultaneously the US Department of Commerce announced the fact that Alibaba was the most reliable online e-commerce site in China. As a result, there are around 800 foreign manufacturing corporations who solely rely upon Alibaba to supply them with the relevant materials from China.

Also, as a guarantee to this scheme, Alibaba enlisted the aid of three external Chinese firms, Hua Xia, ShangHai Jie Sheng and Ao Mei Zixun, as official guarantees, which essentially validated Alibaba as a whole, as a trustworthy and credible firm. This ultimately served as the foundation to the 'trust scheme.'

#### 4. Leadership

In the concurrent Chinese society, Jack Ma is perceived as being akin to the late Steve Jobs. Whereas Jobs revolutionised the hardware industry, Ma stormed the software market, and refashioned the industry in the face of his ideology.

However, contrary to popular belief, Ma is quite the opposite of this façade. Prior to the escalation of Alibaba, Ma sought the aid of Mr Masayoshi Son, the head of Softbank in Japan, whom he met on dual occasions. In the year 1999, February, during the course of the ASEAN Electronic Business meeting in Singapore, Ma's eyes opened up to the copious possibilities that the internet could bring about. Thus, in January 2000, Mr Son initiated a meeting of various Chinese IT leaders, whereby he gave them 20 minutes to capture his gaze. However, Ma did not attend on the basis that he was not after the funding, but he desired the innovative flare that Son possessed, to utilise as the catalyst to enhance Alibaba. Instead, in subsequent months he flew to Japan, and the 6 minute meeting which resulted in a financial injection of 20 million dollars in exchange for 30% of shares, kick-started the incline of Alibaba's reign. This investment, derived from Son's personal fortune, gave Ma the dogma, and the capital, to augment Alibaba's prestige. A further 82 million dollars, which was provided by Son's consortium enabled Alibaba to develop into a multifunctional conglomerate, with the introduction of Aliwang wang, an instant messaging platform for the buyer and sellers to converse, as well as Alipay, the online payment system.

In addition, the meeting illustrated the value of strategic diversification to Ma, and further exhibited the need for a multi-dimensional business frame. Akin to Mr. Son, who was at the helm of a multi-model business, ranging from internet services to the banking sector, Ma started to diversify Alibaba; from a virtual business platform, to a unified virtual business gateway that supplemented everything from finance to social networking.

Further to this, in comparison to Huateng 'Pony' Ma, who founded 'Tencent', Ma did not utilise a distinct strategic scheme, but instead opted to 'hither and thither.' Pony Ma's prioritisation of social networking resulted in Tencent's QQ

becoming the world's largest social networking platform. On the contrary, for Jack Ma, the subsequent external factors such as China joining the WTO enabled him to develop Alibaba into a key player in its respective field.

In order for a business to develop into a preeminent firm in Chinese society, one needs to walk hand in hand with those in the political phase. Thus, Ma developed ties with Alvin Jiang (Jian Zhi Cheng), the grandson of the former Premier Jiang Zemin, who he came face-to-face with in 2012, whose private equity firm, Boyu launched a joint consortium led by China Investment Corp (CIC) to raise the sufficient funds for Alibaba to buy back half of Yahoo! Inc's 40% stake. However, due to the departure of several high profile individuals in CIC, it eventually resulted in Boyu leading the negotiations, and with Alvin on Sean Tong's team, he became directly involved in the negotiations.

This is a typical exemplar of the traditional Chinese way, which cannot be defined as being a form of strategic evolution. Alibaba's core is derived from traditional Chinese values; leaving minimal scope for Western consumers. Since its IPO in 2014, the majority of Western investors yearned for a strategic collaboration with Alibaba, but was impeded by the Chinese culture which instilled a mindset in Alibaba that ostracized any Western form of influence.

#### 5. Self-renewal (Since 2008)

Taobao fundamentally consists of three prominent strategic factors; selling new products without the need of a 'middle man or agents', and hence there are strong benefits that are reaped from royalty consumers' 'gluttony' due to the fact that it is around 25% cheaper than brick and mortar shops. Furthermore, the asymmetric issue regarding the nature of the sellers' priority has rapidly diminished with the introduction of Taobao wangwang, which permits online merchants to communicate directly with the consumers in real time. Furthermore, Taobao's seller-credibility rating system; which was a by-product of the 'Trust passed scheme', which allows buyers to rate and post feedback about the vendors, creates a high level of trust regarding the products sold, through the 'word of mouth', and it makes the whole shopping experience more appealing and trustworthy, which enables Taobao to differentiate itself from subsequent firms in the virtual C2C market. Last but not least, Taobao members evaluate the credit of trading after finishing each transaction through Alipay. There are three ratings on the comments segment; 'positive', 'neutral' and 'negative'. If the vendor was given a 'positive' rating, then the trader will get one score, 'neutral' will account for zero and a 'negative' rating will equate to the trader losing a score, and all scores are displayed beside the Taobao account holders' name (normally nickname). This scoring scheme will be a vital aspect of concern on the traders' part as well as the buyers, as it drives traders to keep a clean and reliable track record which will inevitably bring them a greater amount of customers; this concept can be defined as 'insatiable' royalty.

In April 2008, a dedicated platform for third-party brands

and retailers was introduced to complement Taobao, and was known as Taobao Mall, or Tmall, and it was essentially a strategic alteration from Taobao's resources to Tmall with three different levels of customer standards based on the caliber of their deposits, such as 'Basic Customers with 1688 yuan', 'Standard Customers with 3688 yuan' and 'Limited Edition with 2800 yuan. The 'Basic' and the 'Limited' services were however, terminated on December 2012 and a unified Standard Customer service was launched in its place. Tmall was based on a traditional shopping mall service scheme, with different product categories offered on alternate virtual windows. Furthermore, features such as storewide sales, and an accumulation of loyalty points in exchange for royalties are utilised to replicate the traditional shopping experience.

A plethora of Western branded products have set up official stores on Tmall, and are in the stages of promoting and supplying foreign merchandise to middle class consumers in Mainland China. There are now around 50,000 stores and 70,000 brands which accounts for a 50% share in the B2C market with an average revenue of US\$ 300 billion in April 2014. Within the first year, Tmall's total turnover from sales was in the region of 50 million yuan in 2009, which escalated to 936 million yuan in 2010, 3.36 billion yuan in 2011, and then proceeded to make history in the e-business market, as they broke the record of processing more than 100 million yuan's worth of transactions, in the first minute after the sales started on 11 November 2013, which was known as the notorious 'Singles Day'. (CCTV report 11 Nov. 2013)

Another impressive and highly commendable strategic diversification on Alibaba's part, was the upgrade of the Taobao/Tmall payment system, which was known as Alipay. It was a coherent and cogent online payment system that relied on escrow; the legal money transaction system that interlinked into personal wealth management; which eventually became known as Yuebao in 2013. Furthermore, the introduction of yuebao (saving accounts), cemented Alipay as being a major competitor in the commercial financial institution. In addition, Alipay or initially zhifubao (current account), which was alike to the concept of paypal on e-Bay; in terms of the West, was essentially a tool for transaction for the B2C/C2C business. In 2013, the introduction of the yuebao (saving account) caused an earthquake in the street banking service in China, and provided new digital business opportunities for global e-commerce, as it opened a plethora of doors, for the advancement of the e-commerce market. Further to this, there were new tools of financial technology for yuebao to utilise, which was also included in the visualised daily savings ratio, which made it eligible to transact from the banking account into the Alipay account with greater ease, and the Smart app allows immediate business transactions to take place whilst you are on the move. In addition, there is no additional charge when transferring funds from one account to another, which promotes those to spend more due to the absence of commission. In addition, although the traditional B2C/C2C is usually logged through the internet, Alibaba can be utilised through the use of Smart phones through its app and one can use this app when

shopping online. In terms of its banking credit security, Alipay allows its users to check one's banking information wherever, whenever you enter their security code, which is given post the conclusion of the transaction. Thus, due to this mobility, it provides a greater level of security than that of local banks, and one can transfer money with greater ease.

In simpler terms, one can classify Alipay as being a current account, while Yuebao serves as a savings account with a higher interest ratio than local banks based on daily interest rates. In comparison to the traditional local banking service in China, Yuebao showed a technological development whereby the account holder is eligible to take the principal and interest away, whereby they are eligible to save, and debit their money with ease on any given day; and the previously obtained interest will not be affected. In addition, Yuebao offers a much higher annualised yield for investors; the interest rate was in excess of 6% during the first year and then went through a gradual decline to around 4% in 2014.

The Yuebao impact created a bigger ripple than expected as exemplified by Ma's warning, which was described as 'if banks do not change anything, then we change banks' which became a reality in the traditional banking sectors in China. However, it did not have the same impact in the realm of virtual business. In 26 January 2014, when 'Wechat', China's popular mobile social-networking application launched 'Hongbao (Red Envelop)' on the day of the Chinese New Year, Jack Ma's nightmare started. Initially, Alibaba invented the 'red envelop' scheme prior to Wechat, however the number of Alipay users are considerably less than the quantity of Wechat account holders, so the influence has its imminent limits. When Wechat introduced the personal wealth management scheme which was essentially the same as Yuebao, Alibaba's fear was much greater than that of other competitors. Ma described this incident as being a "sneak attack on Pearl Harbour". There are however, significant differences between Alibaba and Wechat's perception of the concept of money. In contrast to the value of money which Yuebao has, Wechat's 'Red Envelop' scheme is the grasping of human nature. (Xiaolong Zhang, inventor of the 'Red Envelop' scheme). Regarding this scheme, Wechat pinpointed two vital facts derived from tradition and from elements of the current 'new' culture. Giving lucky money or 'red envelopes' to family and friends is a long-fixed tradition during the Chinese Lunar New Year celebrations (more typically referred to as the Spring Festival). In addition, when Wechat introduced this red envelop scheme, they mixed tradition with fun and games, which played an integral part of Wechat's strategic plan. During the course of the Spring Festival, every Wechat member took part in numerous competitions for the red envelop in different chat groups to compete for the opportunity to 'grab' the money in the envelopes; the amounts within them ranged from just 0.01 yuan to 100 yuan in each 'grab'. This grab brought instant activity to the social networking groups and was the catalyst that resulted in this scheme spreading to the multitudes. It was a technological micro-channel through a social game

with a mixture of Chinese tradition blended in.

Within 9 days since the beginning of the Spring Festival, there were more than 800 million Chinese people who received a total amount of 40 million red envelopes worth more than 400 million yuan. Unlike the desire for material wealth, which Alibaba pursued, Wechat provided human nature on their new financial product, which was inevitably received more favorably by their respective customers.

*Strategic Diversification of Alibaba and its eventual Drift*

## 6. From Bazaar Vendor to Street Bank

Unlike to the intricately designed strategic evolutions, which are favoured by Western firms, financial evolution in Alibaba was rather an accidental by-product. One of the prominent dilemmas for firms providing e-commerce in China was the notion of rogue trading, a prevalent aspect of their culture that was based on an asymmetric information base. Reserving deposits for extended periods of time was integral in providing confidence to both parties, and Alibaba expanded on this 'Trust Scheme,' via the introduction of a special reserves initiative, with a reformed savings function.

Since the introduction of Yuebao, internet finance and fund management are cash cows for Alibaba and its emerging competitors such as Tencent and Baidu, firms, which introduced their own internet finance service platforms, in close proximity to Yuebao. Although Alibaba pioneered the new framework for the notion of financial service for the netizens, there are essentially a high tide rather than an open ocean. To begin with, after the 'Red envelop' scheme at the Spring Festival (Lunar New Year) from Tencent, a Wechat-led social-network mobile service provider, has gone from strength to strength and has proceeded to aggressively penetrate Alibaba's financial fortress. For instance, Licitong, which is operated by Tenpay, Tencent's third-party payment affiliate, raked in \$130 million in deposits on the first day on 30 January 2014, and the *Financial Times* reported that the figure had surpassed one billion yuan after its second day live. This data proved that Licitong had surpassed the aggregated Yuebao's 350 million yuan rate on the 13 June 2013. Baifa, another competitor derived from Baidu, which serves as the leading search engine in China, reaped one billion yuan on its first day of business. Although Yuebao has attracted 81 million account holders with aggregate investments totaling nearly 500 billion yuan (US \$ 81 billion) as of the end of February 2014 (*Xinhua*, 21 March 2014), it still remains as the market leader, regardless of the fact that there are more challenges from subsequent competitors. Surprisingly, the data released by 'Tianhong Asset Management', which officially runs Yuebao, shows that the product's return rate declined considerably from 6% to 4.2% in recent times, which further undermined Yuebao's attractiveness.

In addition, as a security purpose, which is predominantly regarded as Yuebao's weakest point, Licitong provided a better secure service to the account holders. As Licitong account holders, the account is bonded with a local bankcard,

which means money can transfer between the Licitong account and the bonded card. According to the Tencent announcement, Licitong is extremely safe, due to the fact that the money in the account is not able to be transferred to other bankcards or be spent directly.

In addition, in the case of Alipay and Yuebao, the money that one invests is transferred to Tianhong Asset Management Co. The fund has attracted 43 million customers and has reaped more than \$30 billion in assets as of December 2013. However, the prominent concern of the investors; is the transparency of the nature of their funds, as one is unaware of the destination of their investments. On the contrary, Tencent teamed up with China's Huaxia Bank Co and offers their product via their three year old WeChat messaging scheme, and the nature of their ultimate destination of their investments are shared with the individuals, which forms a collaborative transparent scheme between the investors and the respective firms, which their funds have benefited. This is a vital facet of Tencent, which makes it more appealing to customers than Alibaba, and thus, it is fundamental factor that Alibaba must address in order for it to overcome their competitors.

Furthermore, multiple local banks, and mobile e-business suppliers are jumping on the bandwagon, and releasing their own wealth management schemes, and thus, a greater competitor is burgeoning. For instance, China Minsheng Banking Corp, a private national commercial bank, was inspired to set up a similar service, which goes by the name of Minsheng E-Business Co Ltd, and in this way a plethora of subsequent major firms have begun to take their respective shares of the market. A fight in the Yangtze has sprouted to a fracas in the Pacific Ocean.

## 7. Strategic Drift and Diminishing Profit in the Global Term

Due to the avid quantity of sellers that flocked to Alibaba owing to the leniency in the commissions, there were a plethora of merchants for the same products and thus, the depreciation of prices was the sole gateway by which one could reap the most customers. The notion of prices persistently decreased so greatly until a certain equilibrium was exceeded. The prices of goods eventually plummeted as a result of the copious amount of sellers, that the levels of profit abated, and thus, it was now not worth selling the product, due to the little to no profit that would be garnered. As a result, multiple vendors began to go astray from selling online and resorted to brick-and-mortar trading, as per the traditional method. Thus, as this has been an ongoing conundrum for Alibaba, it is adamant that they should seek to alleviate traders of this dilemma, should they wish to uphold their grand market-share of e-commerce.

In comparison to the nomination as a 'reliable' third party platform from the Department of Commerce from the US in 2000, Alibaba (including Taobao) was cemented as being a 'notorious market' between 2008 to 2011 by the annual 'Special 301 Report' and 'Special 301 Out-of-Cycle Review'

prepared by the Office of the US Trade Representative, owing to the high rate of claims for pirated or counterfeit goods, which Jack Ma has continuously strived to stop. Furthermore, as a whole, the increasing tax burden for SMEs in China, would eventually drive the majority of the small online vendors out of business, and would depreciate the customer rate by a significant margin.

When operating system tends to experience more homogeneity through mobile applications, the business boundaries of e-commerce and e-marketing start to get bleaker. While Alibaba proceeds to hither and thither, Tencent, on the other hand, moves as per their prime strategic objective, which predominantly revolves around the development of their financial system.

*Table 1. Comparison on three big digital players.*

	Alibaba	eBay	Amazon
Customer Base	1.4 billion	327 million	327 million
Total sales (billion USD)	\$240	\$16	\$74.4
Active User Base	300 million	145 million	244 million
Employees	25,000	33,500	117,300
Market Share (in China)	75%	>1%	1%
Total revenue (billion USD)	\$7.5	\$16.05	\$74.45
Global market share	Less than 5%	19%	21% (prediction)

Source: Derived from multiple sources of published data, 2014

In order for Alibaba to become a global player, they need a distinct and innovative strategy to compete with subsequent high-flying conglomerates, in order for them to strive towards a specific goal, and to differentiate themselves from the pack. The table above clearly displays that aside from the Chinese market, Alibaba is still a regional player and currently serves as the 'second level' market penetrator, whereby they are perceived as many, as being a 'first level' player, but as various statistics display, Alibab was unable to fulfill the required expectations of subsequent global firms. During the 2014 World Cup in Brazil, Alibaba and Tencent introduced official betting sites, but Alibaba's service was unable to allow overseas users, who proved to contribute a vast amount to the overall profit reaped, to utilise this service. Thus, since the introduction of Yuebao, it is apparent that Alibaba has been one-step behind Tencent.

## 8. Strategic Comparison Between Alibaba and Tencent

The battle between the Ma's rivalry has been transfigured into a legend. 'Pony' Ma and Jack Ma launched their respective businesses in close proximity of one another. It has been declared the most expensive competition in online history in China. However, it is still regional news from the perspective of the western world. QQ a product of Tencent, was started with a distinctive motive, revolutionising the social networking market, a feat which it eventually achieved; with over 1 billion registered members to this date. Alibaba, on the other hand, was initially a 'directory,' which

served as a gateway between foreign buyers and local sellers. Its prominent purpose was to interlink buyers from multiple nations and sellers from within, however, the absence of a strategic objective led it to thrive in the wilderness for multiple years prior to the introduction of Taobao.

Since January 2011, when Wechat (originally a photocopy of the Canadian born Kik Messenger) was introduced, 270 million monthly active users synchronised to produce a popular smartphone messaging app that incorporates social networking, games and online payment schemes alongside personal wealth management monitors. As a mobile networking platform, WeChat has expanded above and beyond the personal social networking realm, through the opening of its platform to commercial and public services. According to Zhang Ying, the deputy product manager of WeChat, interviewed 'more than 2 million banks, media outlets, companies, organisations and government based departments have registered public accounts on WeChat'. Boosted by these value-added functions, WeChat reached 600 million registered users in total, with 100 million of these users based overseas, a feat which Alibaba was not able to achieve. Due to the lack of their social networking capabilities, which have proven to be a highly desirable facet for mobile internet users, Alibaba introduced Laiwang in September 2013. However, it failed to even touch the surface of the immense customer base which WeChat had reaped since their introduction. Another blow for the financial service in Alibaba's part was the CCTV survey, which exemplified the fact that 'the higher the average householder income a user has, the more likely he/she will be eligible to use the mobile function of Wechat'. (CCTV 21 March 2014) It was a fatal blow for Alibaba, who desired to be the market leader on the matter of wealth management in the Chinese financial e-business sector. In comparison to Alipay's 2-2.5% commission charge, Licaitong from WeChat provides an attractive 0.6% commission charge to its trading clients. On 11 March 2014, during the National People's Congress, the Commission allowed Alibaba to focus primarily on small and micro clients in both its deposit and loan businesses. The China Banking Regulatory Commission (CBRC) set a required limit on the maximum size of deposits and loans available per client. Meanwhile, Tencent will prioritise those with large deposits and will have a minimum threshold for each client with a deposit. Also, Tencent have a maximum loan size per client, similar to Alibaba.

The strategic collaboration with JD.com (Jingdong Mall, an online e-commerce platform akin to Amazon) was a direct challenge to Alibaba's dominant fortress of Taobao and Tmall. There were several technical problems however, which JD had, such as the manner in which they went about with the handling of the order capacity which had been capped to 100,000 per day, there was also no cloud service for their users, and alongside the mediocre logistic services, this significantly depreciated the quality of the service. However, WeChat's substantial cash injection and the technological collaboration which they offered, swiftly enabled them to become the second biggest B2C operator.

It was confirmed by the Chinese government agency; China Internet Network Information Centre, who reported that more than 500 million internet users out of the 618 million in China preferred to use mobile devices to access the

internet rather than a PC or laptop, which are the main instruments that are utilised for Alibaba's e-business platform. (*BBC report* 18 March 2014).

*Table 2. Buy-out process between Alibaba and Tencent since 2010.*

Alibaba	Tencent
Sino Weibo (China's Twitter) – US\$586 million for 18% stake	JD.Com (e-commerce platform) – US\$ 214 million for 15% stake (March 2014)
Shopper (retail website) – US\$206 million investment	Dianping (China's Yelp) - US\$ 400 million for 20% stake
Kanbox (Cloud storage) – Acquired (undisclosed amount)	17u.cn (tour service) – US\$ 82 million investment
Quixey (China's Google) – US\$ 50 million investment	Sogou (China's Google) US\$ 448 million for 36.5% stake
AutoNavi (mapping service) – Acquired US\$ 1.5 billion	Linktech Navi (mapping service) – acquired for US\$ 9.9 million
Tianhong (financial management firm) US\$ 193 million for 51% stake	China South City Holdings (logistics) US\$ 195 million for 10% stake
1 stdibs (luxury e-commerce site) US\$ 15 million investment	58.com US\$ 736 million for 19.9% stake
UCWeb (Mobile browser) Acquired (undisclosed amount)	
ChinaVision (TV/Movie studio) US\$ 800 million for 60% stake	
Wasu Media Holding Co. US\$ 1.05 billion for 20% stake	
ByeCity (travel provider) US\$ 20 million investment	
Mogujie (Pinterest-type) – Acquired for US\$ 200 million	
Guangzhou Evergrande Football Club – US\$ 192 million for 60% stake	
Intime (HK based retail group) – US\$ 692 million investment	

Source: Derived from multiple sources of published data, 2014

The state of their rivals buy-out processes looks much more disciplined. Tencent is aggressively invading Alibaba's e-business turf with deals that, unlike Ma's are easily explainable and are comprehensible. Tencent has a distinct concentration for key strategic objectives, a stark contrast to Alibaba, who are instead splurging in adherence to a diversified strategy. It is evident that, not all of Ma's frontier strategies have panned out in the long run, however some of them have the potential of bringing Alibaba down to earth. One of many focal points, is the fact that Alibaba obtained a loan of US\$ 8 billion and utilised this cash injection to commence their buy-out scheme with several companies, although there was minimal evidence to strategically interlink the respective firms to Alibaba. In 2013, Alibaba spent US\$ 6.4 billion for their respective M&A processes; unlike Alibaba, Tencent is a cash rich company, residing on a mound of cash that exceeds the value of US\$ 5.5 billion and there are no foreign shareholders, a facet which Alibaba does not possess. Furthermore, Tencent has in recent times, been pushing into the overseas markets', especially the burgeoning South-East Asia and Latin America, with a campaign featuring Lionel Messi, the Argentinian and Barcelona FC's footballing icon, to enable their services to get across to the respective audience via a highly desired and loved figure; which further promotes the company's value. An act; which was also never replicated by their rivals.

## 9. Conclusion

As a global firm, strategic processes should be consistent and cogent in nature. It should provide an intricate strategic trajectory for both the shareholders and stakeholders. One of the prime concerns from the perception of a shareholder,

during Alibaba's initial tenure, was the fact that Mr. Ma's personalised decision-making process was a continual risk for Alibaba. In 2011, when it spun off Alipay, Ma failed to inform Yahoo Inc. one of their prominent shareholders of the matter, which caused some, such as Mr Son from Softbank to be dubious of his leadership abilities. This was further demonstrated in recent buy-out processes such as the extravagant venture in Guangzhou Evergrande Football Club with a 1.2 billion yuan (US\$ 192 million) investment, which was finalised over the period of a 15 minute meeting. Further cash injections such as that in the Hong Kong based Intime retail group clearly exemplified the imminent tradition which Chinese business men adhere to, in times of great prosperity. For instance, during the IT boom, Lenevo bought the PC section from IBM in 2004, which propelled it to the status of a global leader in the PC market. In 2008, however, the strategic failure of this acquisition was demonstrated by the plummeting of its share prices from 6 to 1.32 yuan in the Hong Kong Stock market. Alibaba's continuous buy-out plans take the same route as the one that Lenovo undertook, when the sun was shining in their respective businesses.

It was reported on 15 July 2014 that there were legal investigations taking place regarding dealings with Boyu Capital in relation to the political corruption issues in China and the pending result would be one of great importance and would be most sensitive for discussing the nature of Ma's link to the political realm.

At this moment in time, there are a plethora of possibilities for a 'great firm,' in China, to undertake, owing to the copious quantity of opportunities that cross their path. However, akin to the paths taken by Coca Cola, and Toyota, which were and still are core businesses' in their respective nations, it is vital to strengthen one's core strategy in times of



great affluence. Mr Ma's perception of the 'Too big to die' concept, is not an idyllic strategic view of a firm of Alibaba's calibre to undertake. When business began, Ma stuck to the 'Yang yu fang shui (wait till the water's full)' strategy, however there is minimal time at one's disposal when developing your innovative strategy; for a firm that began as a crocodile in the Yangtze River and burgeoned into a global shark in the Pacific Ocean.

Hence, it is rational to perceive that due to the advancement in the calibre of their firm, Alibaba have significantly diversified into multiple markets, some of which are wholly esoteric; and have thus impeded their strategic advancement process by going astray from their initial innovation flare which differentiated them from subsequent firms. One can further acknowledge that Alibaba has lost their 'strategic momentum', and have gone above and beyond the frame of Eco-business due to their exotic acquisitions.

As per common belief, 'why change a winning formula?' it is adamant that a 'winning firm,' in its respective market adheres to their initial purpose and strategic objective. Otherwise, it will soon result in a firm with no distinct initiative, ebbing and flowing down a stream of uncertainty. During his recent IPO roadshow, Ma emphasised the fact that Alibaba harbours big growth ambitions in the US, Europe and has further desires to move into Russia and Brazil. However, it is evident that regardless of these transnational motives, 93% of their total revenue still originates from China, illustrating the fact that although Alibaba will triumph over Amazon in the domestic market, Amazon will continue to prevail globally. Thus, in order to strive for market dominance, it is vital that Alibaba prioritises the global stage, and averts from its drifted diversification strategy, which was regarded as a 'self-inflicted wound.' They should further diverge from the Sino-Business centred structure and seek to diversify their focus, in order to hinder the wrecked vision that Ma dreamt at the first stage of the firm's growth, from becoming an imminent reality.

---

## References

- [1] Allen and Phillips (2000) in Etemad H. (ed.) *The Process of Internationalisation in Emerging SMEs and Emerging Economies* Edward Elgar.
- [2] Alibaba company site [www.alibaba.com/en](http://www.alibaba.com/en)
- [3] Boudreau K. J. & Hagiu A. (2009), *Platform rules: Multi-sided platforms as regulators*, in Gawer A. (ed.) *Platforms, markets and innovation* Edward Elgar.
- [4] China Internet Network Information Centre (2013), 'Statistical Report on Internet Development in China' January 2013.
- [5] Various issues from *The Economist*, *The Financial Times*, *Global Times*, *South China Morning Post* and *News China internet magazine*.
- [6] Iansiti M. & Levien R. (2004), 'Strategy as ecology', *Harvard Business Review* vol. 82 no. 3 pp 68-78.
- [7] James F. Moore (1993), 'Predators and Prey: A New Ecology of Competition', *Harvard Business Review* May-June 1993.
- [8] Johanson J. & Vahlne J. E. (1997), 'Internationalisation process of the firm – A model of knowledge development and increasing foreign market commitment', *Journal of International Business Studies*, vol 8 no. 1 pp. 23-32.
- [9] Oviatt, B. M. & McDougall, P. P. (1994), 'Towards a theory of international new ventures', *Journal of International Business Studies*, vol. 25 no. 1 pp 45-64.
- [10] Pierce, L. (2009) 'Big losses in ecosystem niches: How core firm decisions drive complementary product shakeouts' *Strategic Management Journal* vol. 30 no. 3 pp. 323-347.
- [11] Rialp A., Rialp J., Urbano D. & Vailant Y. (2005) 'The born global phenomenon: A comparative case study research' *Journal of International Entrepreneurship* vol. 3 pp. 133-171.
- [12] Rochet J. C. & Tirole J. (2006), 'Two-sided markets: A progress report' *RAND Journal of Economics* vol 37 no 3 pp645-667.
- [13] Teece D. J. (2007), 'Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance' *Strategic Management Journal*, vol 28 no 13 pp 1319-1350.