

ALIBABA GROUP: RIVALS AT THE GATE?

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INSTRUCTOR'S NOTES

CASE DESCRIPTION

This case is primarily intended for use in the international strategy section of a business policy or competitive strategy course. It can be used as an overview of the many decisions and actions that an organization has to undertake to sustain a competitive advantage. This case can also be used to augment discussions of strategic analysis, globalization impacts, transnational strategy, specifically both in domestic and international markets and strategic formulation.

This case study aims to present a complex and dynamic international e-commerce corporation, which has experienced rapid growth. Naturally, undergoing drastic corporate expansion comes with its share of challenges. The challenges discussed in the case provide students with the opportunity to analyze a complex system of issues and develop their own unique evaluations.

The case is rich enough for advanced and graduate students and has been developed in a manner that will allow students to diagnose the root(s) of the company's issue(s) as detailed in the case, and then form opinions and suggestions for any strategy that the company should pursue. Students should expect to spend two hours preparing for the case discussion and then the case can be discussed in the classroom in one to one and a half hours depending on instructor preferences and discussion style.

CASE SYNOPSIS

During a visit to the United States in 1995, Jack Ma, the founder of Alibaba, heard about the internet for the first time. With his hands on the technology, he searched for the word beer on Yahoo. Ma was surprised to find that his Internet search came up with beers from Europe and America, but there was nothing from China. At that moment, he decided to build a business that could facilitate the buying and selling of Chinese products abroad. Even in the face of great scrutiny, he identified the great business potential of e-commerce and founded Alibaba in 1999.

Ma's once criticized vision for the Alibaba Group has now evolved into a thriving global operation, making it one of the most successful companies of the past decade. Alibaba's stock price has been one of the top performers among technology companies around the world. Its past year performance aggressively competed with one of its fiercest international competitors, Amazon (see Exhibit 1). However, Alibaba's continuously evolving business model, along with increasingly growing domestic competition from companies like Tencent Holdings, Baidu, and

JD.com, has created numerous challenges for the company to move forward and replicate that past performance record.

Intuitively, the meteoric rise of Alibaba has been accompanied by a number of direct and indirect challenges, which are consistently growing with the size of the company. From domestically-based pressures, such as increasing competition, to international obstacles involving new and uncharted U.S. market conditions, Ma's Alibaba Group has its work cut out. Additionally, the Chinese government has tightened e-commerce regulation, which led to formal complaints aimed at Alibaba's practices regarding fraud protection. A great deal of debate is attempting to hash out the ambiguities associated with the determination of the company's future competitive sustainability and financial viability.¹

LEARNING OBJECTIVES

This case study aims to present a complex and dynamic international e-commerce corporation, which has experienced rapid growth. Naturally, undergoing drastic corporate expansion comes with its share of challenges. The challenges discussed in the case provide students with the opportunity to analyze a complex system of issues and develop their own unique evaluations. The complex business model of the Alibaba Group sets the stage for a challenging learning experience.

This case deals with a very successful Chinese company as it ventures overseas and encounters multinational competitors for the first time. The world of e-commerce is riddled with ambiguities especially when it comes to internationally focused companies. An in-depth understanding of Alibaba Group's international e-commerce strategy is necessary to engage in an effective analysis and evaluation of the issues facing the firm.

Additionally, the case also presents information that allows for a look at recent regulatory behavior by the Chinese government. As China has reached a higher level of development, Chinese corporations have become important in the study of international business. The information regarding China can be used to facilitate discussion relating to recent regulatory actions taken by the Chinese government.

APPROPRIATE CLASS LEVEL

We believe that this case works best in the International Strategy lesson of a Strategic Management course; the case can also be used with a variety of other courses. This case can be used in International Business class, Globalization class, Corporate Strategy class, and Competitive Business Strategy class. Furthermore, this case can also facilitate a productive discussion for a Business Innovation class as the content in the case highlights the importance of continuous innovation in a rapidly changing business environment.

Course: Strategic Management, International Business, Corporate Strategy, Innovation and Entrepreneurship, Organizational Leadership, and E-commerce Strategy, and International Business class concentrating in the Asian market, particularly China (undergraduate and graduate

candidates). A prerequisite knowledge of an understanding of the e-commerce, Porter's 5-Forces, Mergers and Acquisitions may be useful for the readers.

LEVEL OF DIFFICULTY

The authors wrote the case in a style that overviews the situation, but intentionally avoids guiding students through specific application questions or any analytical framework. Subject style enables the instructor to adjust class discussion to accommodate students with a broad range of abilities. Specifically, instructors can invite graduate and undergraduate students to reason through a situation where uncertainty exists and speculation may be required.

AMOUNT OF CLASS TIME REQUIRED FOR PREPARATION AND DISCUSSION

The case is designed to be taught in one to one and a half class hours and is expected to require one to two hours of outside preparation by students for reading and analysis. Each instructor may differ regarding the depth of discussion and detail in which aspects of the environment and firm strategy are discussed. With groups of students who already have familiarity with China and Chinese markets from other course works, it is possible to shorten the Chinese market's landscape discussion at the instructor's discretion.

TEACHING PLANS

The Alibaba case offers insights on how big a role Alibaba has played in the evolution of the Chinese e-commerce industry, challenges that the Chinese e-commerce industry faces, and an understanding of a complex business model that will shape the future of online businesses around the world. The case covers business strategies, technological innovations, and utilization of technology needed to gain competitive edge over business rivals in a dynamic and intensely competitive marketplace. The case also sheds light on the complexity of Alibaba's business model that evolved with time in response to the needs and wants of consumers, small businesses, and technological development in China.

Michael Porter states in his article *The Competitive Advantage of Nations* (1990), "Competitive advantage is created and sustained through a highly localized process. Companies achieve competitive advantage through acts of innovation. They approach innovation in its broadest sense, including both new technologies and new ways of doing things." This statement applies to Alibaba and its competitors. The Chinese economy has been expanding at a remarkable growth rate over the past few decades. Companies such as Alibaba connected the population of a billion people to transact and do business. Small business in China benefited enormously as e-commerce connected those businesses to rest of the world. Companies need to adapt to and understand the local competitive landscape during the growth phase. However, understanding the global competitive landscape becomes more important with time and increases in size of the business. It is difficult for Chinese businesses to remain competitive in China, and even more difficult to compete with western businesses. Amazon has become the world's largest

e-commerce company. To compete with Amazon internationally will be one of the biggest challenges that Alibaba has faced since its inception.

This case can be used in several ways since it covers a broad spectrum of the e-commerce landscape. However, this case primarily covers the topics from a Business Strategy point of view. This Alibaba case can also be used to demonstrate how a new start-up business with big thoughts and ideas can be a leader in the industry. By constant innovation and firm leadership, a business can experiment with new forms and ways of doing business.

ASSIGNMENT QUESTIONS

As noted in the "Teaching Objectives" section, the opportunity exists in the case to engage in speculation. The authors of this case believe that students will respond to this uncertainty and see an opportunity to exercise their ability to reason logically in the face of uncertainty. The questions presented below cannot be fully answered without some degree of speculation. In the answers provided for each question, the authors provide their interpretation. Each instructor using this case is encouraged to do the analysis as well.

Summary of Questions

Question 1: What steps will Alibaba need to take to retain a dominant and competitive position in China's domestic market? What are the domestic competitive threats?

Question 2: What is the international competitive landscape in e-commerce? Who are the international competitors? What are the international opportunities?

Question 3: What are the regions of the world on which Alibaba should focus?

Question 4: How will Alibaba's growth strategy of mergers and acquisitions help the company to compete in the US and other international markets?

Question 1: What steps will Alibaba need to take to retain a dominant and competitive position in the Chinese domestic market? What are the domestic competitive threats?**Answer:**

Alibaba is facing unique challenges in both domestic and international markets. The large size of the company requires a huge scale of growth and customers to experience a tangible difference in earnings. The competitive position in the China's domestic market is strong for the company as it had the first mover's advantage. The timing and opportunities throughout Alibaba's history also helped the company to attain a competitive position in China. However, the future seems to be different. One of the most important competitive advantages would be cost reductions by achieving economies of scale. It will enable Alibaba to retain a competitive position in the market. Moreover, backward and forward integration of the company will also enable Alibaba to achieve the goal of cost reductions by controlling both ends of the service offerings. The company will also need to continue improving its existing technology platforms and customer service. The switching costs to customers are not high in the e-commerce industry. What keeps customers loyal is the consistent quality of service and price. The domestic competitive threats can seriously hamper Alibaba's growth. Considering the aggressiveness of domestic competitors and partnerships of rivals such as Tencent and JD.com, Alibaba needs to build a moat around its service offerings. Although the number of competitors is relatively small, the difference in quality will determine customer loyalty. The scale and quality of service are the two most important factors to deal with the domestic rivalry.

Question 2: What is the international competitive landscape in e-commerce? Who are the international competitors? What are the international opportunities?**Answer:**

The international competitive landscape in e-commerce is extremely competitive and challenging for Alibaba due to its size and the nature of the business. The developing world has more potential and untapped markets compared to the developed markets such as Europe and the US. The cost of expansion is very high as is the cost of acquiring new customers in international markets, especially in the US. Amazon dominates the US e-commerce market and competing with Amazon in the US is not going to be the biggest international challenge. Time and cost of entry are probably not as attractive as a few years ago, however it is not too late either. Alibaba will need to develop cost advantages in the US and offer a very competitive quality of service. There are opportunities for Alibaba as its business model and types of service offerings are distinct from those of Amazon. Alibaba can expand upon its B2B services and its online payment systems, among many others. There are also opportunities for Alibaba to benefit from international trade. The company can connect the Chinese markets with the rest of the world. It will provide new opportunities for accessing a larger market, which domestic competitors outside China may not provide.

Question 3: What are the regions of the world that Alibaba should focus on?**Answer:**

Students might consider not only attractive e-commerce markets but also the notion of strategic groups and whom they want to compete against. There are many untapped markets among developing nations that Alibaba can target. E-commerce industry and infrastructure have yet to develop in regions like Africa, the Middle East, Southeast Asia, and South America. Having a large scale of resources and influence, Alibaba must target these markets, which together constitute about two-thirds of the world's population. Income levels as well as accessibility to the internet are increasing in developing nations. Being part of the global development in the e-commerce industry can reap great benefits for the first movers. That does not mean Alibaba should abandon the developed markets. However, an efficient strategy will have to ensure the development of competencies that help the company to achieve effective expansion in developing nations – as opposed to focus on the expansion in developed nations.

Question 4: How will Alibaba's growth strategy of mergers and acquisitions help the company to compete in the US and other international markets?**Answer:**

Alibaba's growth strategy of mergers and acquisitions has been quite successful in the past. Given the saturation in development of new technologies, it will probably be efficient to acquire the existing ones. Developing e-commerce infrastructure takes time, resources, and experimentation that can be very costly. Therefore, instead of focusing on organic growth Alibaba should acquire existing companies to compete on the international market. A transnational and localization strategy will be required to enter international markets. Alibaba has great experience in serving Chinese customers but customers around the rest of the world are unique. Mergers and acquisitions in international markets will enable Alibaba to benefit from established infrastructures, business models, and management required to run its business in those markets. The cost of acquiring new customers will not be as high as entering the market without alliances. After establishing a strong market share and foothold in the new markets, Alibaba can expand further using its wide range of resources.

EPILOGUE

The case provides information about an overall analysis of a leading e-commerce company in China, and thereby examines the competitive landscape and strategies with respect to e-commerce and international businesses. The overall brand value of Alibaba is excellent, but it is facing some tough competition from new local entrants as well as international competitors such as Amazon. According to the analysis conducted in this case, in terms of the domestic market i.e. China, Alibaba is the most superior e-business portal, which is aggressively

expanding and planting its roots deep into the Chinese market. Alibaba has enjoyed success as a top e-commerce business in China, but the company is facing challenges to increase its market share at the pace that it has experienced in the past. Additionally, Alibaba is aspiring to increase its global presence, particularly in the U.S. Finding success in the U.S. market will be an enormous challenge in terms of pleasing western customers, the costs of expansion, and competition from Amazon.