ALIBABA GROUP: RIVALS AT THE GATE?

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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 unchartered 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.[i]

Exhibit 1: Alibaba Stock Price Performance VS. Amazon, JD.com, and Baidu
(Source: Yahoo Finance, 2018)

COMPANY HISTORY AND EVOLUTION

Ma Charm

Jack Ma did not benefit from any type of advantageous handicap. During a speech at Stanford University, Ma stated, "We are a very lucky company… There was no chance that we would survive. I don't have any background, rich father, or strong uncles."[ii] Ma's success seems to be the outcome of his innovative vision and aggressive business savvy. Scott Kessler, an analyst from S&P Capital IQ, describes Ma as, "someone who thinks very long term—which is something that isn't very common these days."[iii] Ma departs greatly from the typical Chinese personality archetype. His flamboyant style, forwardly opinionated demeanor, and unconventional business approach define the man known as Jack Ma.[iv]

Ma first encountered the Internet during a business trip to the United States as a translator. While his initial goals pertaining to his travels failed, his introduction to the Internet surely made the endeavor worthwhile. After recognizing the Internet's potential, he headed back to China to pursue opportunities involving its application. Ma initially developed a Chinese listing website, which he eventually sold to the Chinese government. For some time, Ma worked with the Chinese Ministry of Commerce in Beijing. Finally, Ma decided to move back to his hometown, where he would discover something that would change everything.[v]

Alibaba Incorporated

In 1999, Jack Ma and his team of seventeen co-founders officially established Alibaba Group out of his apartment in Hangzhou, Ma's hometown in Eastern China. Upon the company's commencement, a global wholesale business-to-business online marketplace, Alibaba.com was born.vi From 1999-2000, Ma and his team worked to acquire venture capital funding. During January 2000, the company successfully signed a deal for US$20 million with a group of investors led by a Japanese multinational corporation, Softbank. Other financial institutions, such as Goldman Sachs and Fidelity, were also early investors in Alibaba Group. In 2001, the company surpassed one million users and operated with positive cash flow; this was Ma's first encounter with profitability.[vii]

In 2005, U.S. corporation Yahoo! and Alibaba.com formed an international strategic partnership. This partnership allowed the two companies to work together towards improving the Yahoo! brand presence in China. Yahoo! purchased US$1 billion of Alibaba.com shares, which, in agreement with Alibaba Group, provided Yahoo! "... 40% economic interest with 35% voting rights… ".[viii] Ma explained, "Teaming up with Yahoo! will allow us to deliver an unmatched range of e-commerce services to businesses and consumers in China."[ix]

In 2007, Alibaba began trading as a public company on the Hong Kong stock exchange as Alibaba.com Limited. The IPO raised $1.67 billion, which made Alibaba.com Limited the largest Internet IPO in Asia. The IPO share price opened at $1.73 and sharply rose 192.6% to $5.05 per share.[x] Ma stated, "We are pleased to welcome investors from Hong Kong and around the world to join us in building a world-class e-commerce company."[xi] Major investors involved with the offering included Yahoo! Inc., Foxconn Limited, the Industrial and Commercial Bank of China Limited, and AIG Global Investment Corporation Limited. David Wei, CEO of Alibaba.com, announced, "Our Hong Kong listing is an important milestone for our Company… We will use the resources and brand exposure gathered from the listing to expand our community of members and add more value to their business."[xii]

In 2014, Alibaba Group officially filed for an IPO in the United States.[xiii] After the international business community got the news that Alibaba Group would begin publicly trading in the U.S., there was an uproar on Wall Street surrounding the monumental event. The tremendous growth trajectory of the company along with an increase in revenues provided promising evidence that Alibaba would not have a problem competing with American firms. (See Exhibit 3)

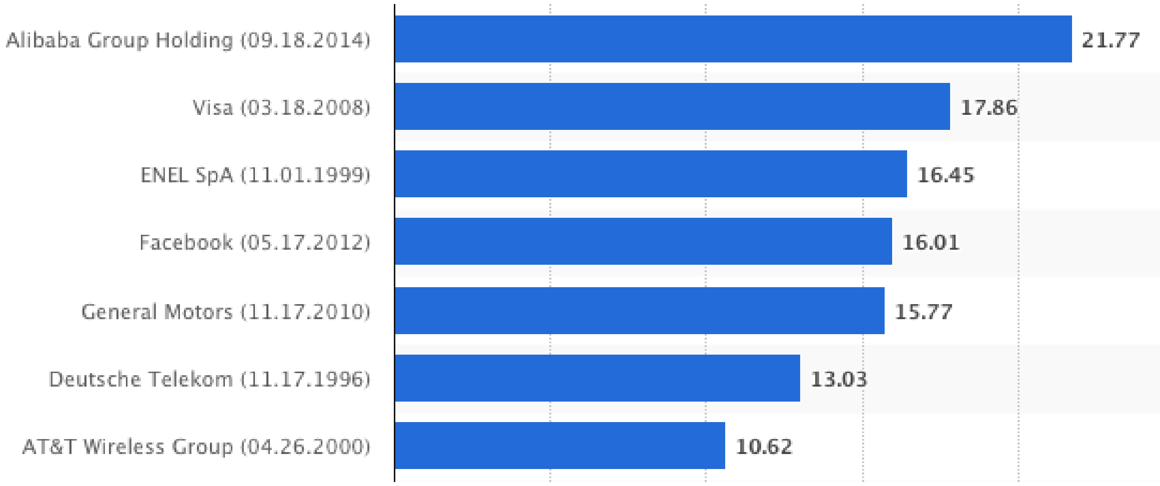

Exhibit 2: Top 7 IPOs in the United States as of 2018 (in $ Billions)
(Source: Renaissance Capital, United States; January 2018)

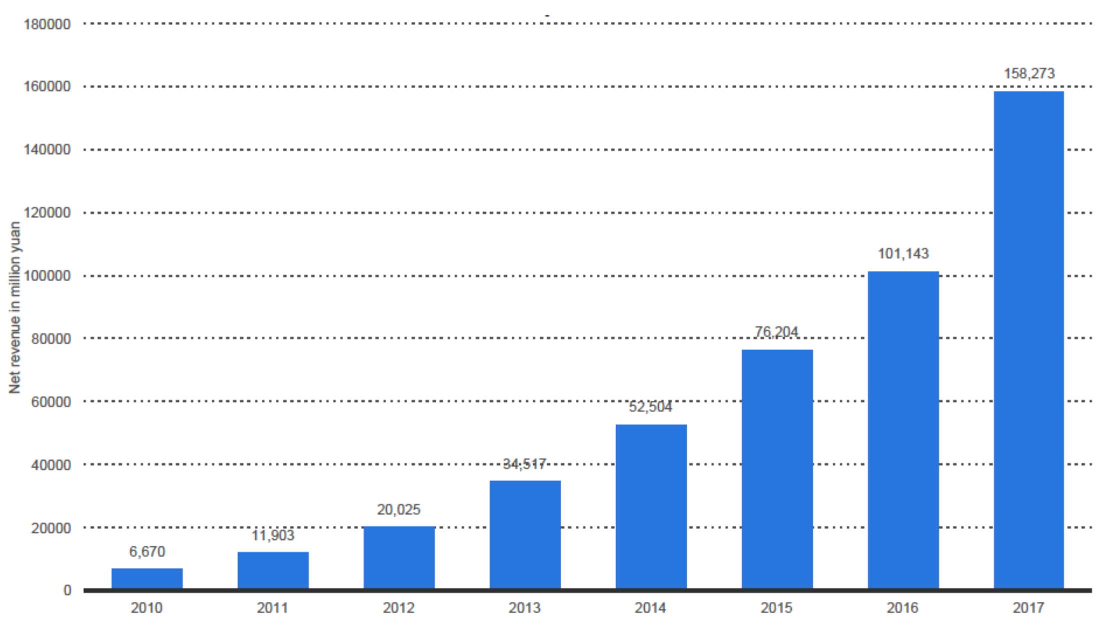

Exhibit 3: Alibaba Group Annual Revenue 2010-2017 in Millions of Chinese Yuan - ($1 USD = 6.34 CNY)
(Source: Alibaba Annual Reports)

Company Philosophy

Alibaba Group participates in various markets through its different businesses. A central theme among Alibaba's businesses points to providing an online platform for buyers and sellers around the world. Alibaba Group identifies itself as an ecosystem, in which its diverse online marketplace platforms meet the needs of heterogeneous buyer-seller relationships throughout the world.[xiv] In a letter to investors, Ma states, "Alibaba is a value-based company driven by our mission to make it easy to do business anywhere. Our proposition is simple: we want to help small businesses grow by solving their problems through the Internet."[xv] Alibaba Group is frequently compared to popular global e-commerce companies such as eBay, Amazon, and PayPal. Alibaba Group's multi-dimensional "open marketplace" is recognized as the largest global marketplace by volume.[xvi]

Business Model

Typically, e-commerce businesses maintain warehouses to store inventory. Engaging in direct selling is also a commonplace practice. In this effort, a company attempts to sell products directly to connected consumers through their e-commerce platform. Frequently, e-commerce businesses own or work in conjunction with committed distribution channels. The philosophy behind Alibaba's success strays from the classic e-commerce approach. Alibaba does not own any warehouses, does not oversee or corroborate with any distribution channels, and never engages in direct selling of goods. Alibaba aims to simply connect small businesses and manufacturers with a global pool of potential consumers.[xvii]

Alibaba's e-commerce revenue generation is acquired through variegated fees. Merchant fees are charged to users based on the number of units sold in retail centers. A fixed rate is required of members in the wholesale centers. Small businesses have the option to have their own storefronts for which there are special membership fees.[xviii] More than 50% of revenue is earned by online advertising efforts. Consumers use the Taobao Marketplace search engine to locate desired goods by entering phrases containing keywords. These keywords are auctioned—providing the highest bidders with advertising space for when a customer enters the specific keyword. Advertising revenue, a significant portion of revenues, comes through homepage advertising space. Taobao, Tmall.com, and Alibaba.com set aside areas on their respective homepages for merchants to purchase. Due to the shift from PC-based to mobile platform consumer preference, adjustments must be made to advertising efforts. Taobao and Baidu dominate the online advertising market in China.

Components of Alibaba

Alibaba's numerous businesses allow the company to accurately focus on divergent e-commerce trading relationships. While the company's original efforts to provide a global e-commerce platform still exist, the growth of the company led derivative businesses to be conceived in order to expand Alibaba's functionality and potential user base. The company provides its services to both large-scale and small-scale organizations alike. Additionally, some platforms are geared towards global e-commerce, while others primarily focus on domestic transactions within China (see Exhibit 4 and 5).

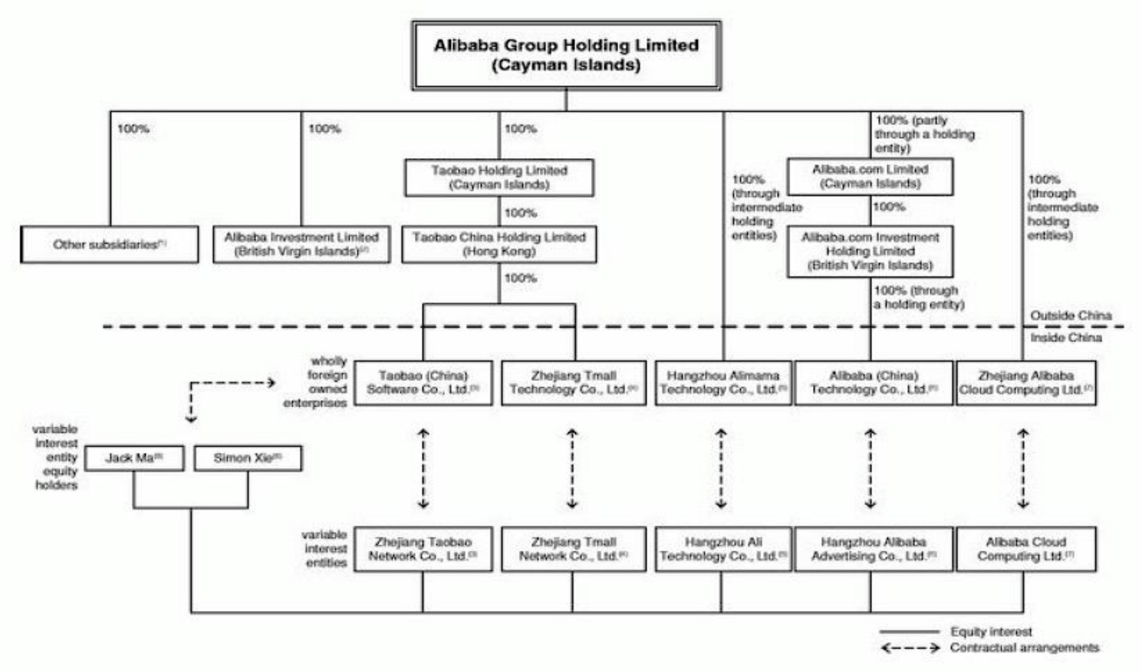

Exhibit 4: Alibaba Group Organizational Structure
(Source: Alibaba Annual Report 2017)

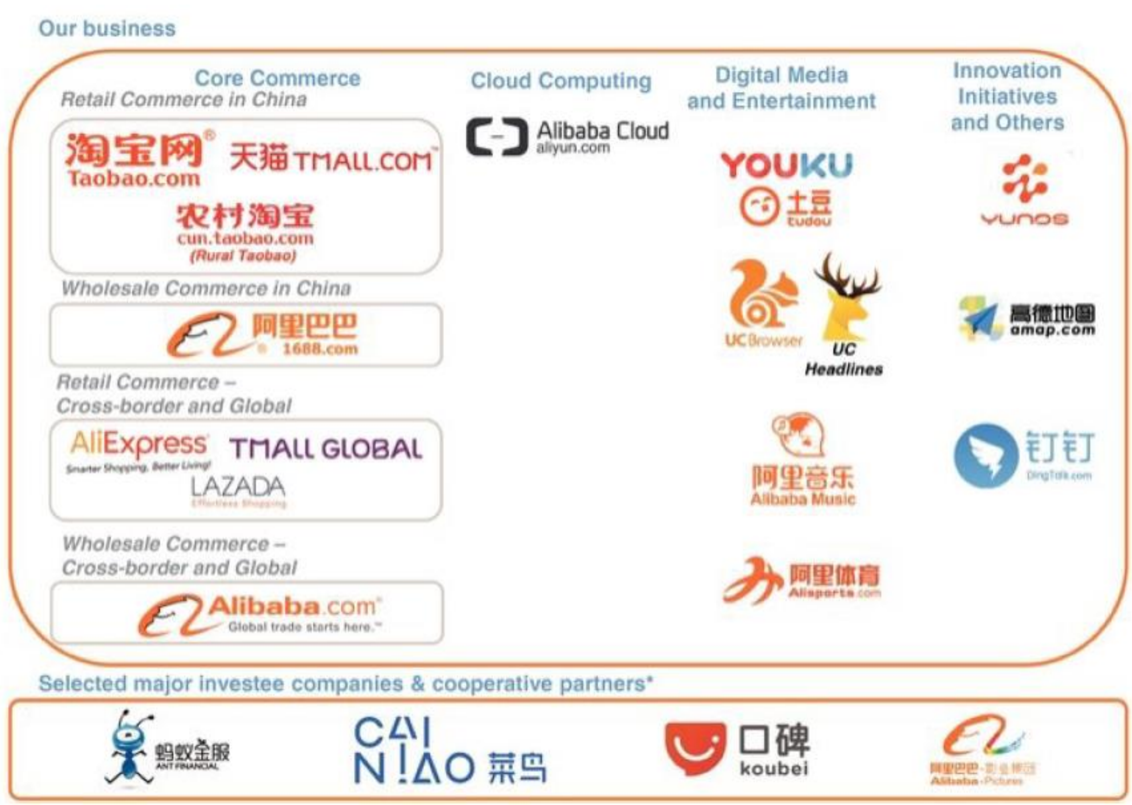

Exhibit 5: Alibaba Group of Businesses and Major Business Partners
(Source: Alibaba Annual Report 2017)

In 1999, Alibaba.com was created alongside the initial founding of Alibaba Group. The flagship business division is described as a "global wholesale marketplace online for international customers."[xix] Globally, Alibaba.com is reported to be the largest online business-to-business platform. The e-commerce platform deals with buyers and sellers from over 240 countries.[xx] The marketplace aims to connect international buyers with Chinese sellers. Nevertheless Alibaba encourages vendors from anywhere in the world to utilize the global trading platform.[xxi]

1688.com, a business segment of Alibaba.com, was officially launched in March 2010. 1688.com, like Alibaba.com, is a business-to-business online e-commerce platform. While Alibaba.com focuses on facilitating B2B trading transactions globally, 1688.com is specifically geared towards enabling B2B wholesale transactions within China domestically. As of 2013, 1688.com had acquired one hundred million registered users.[xxii] AliExpress, one of Alibaba's businesses, was developed and released in April 2010. AliExpress's purpose, similar to Alibaba.com, focuses on smaller B2B interactions. AliExpress allows the targeted small businesses, internationally, to purchase goods in smaller quantities at wholesale prices (see Exhibit 6 and 7).[xxiii]

The Taobao Marketplace, an alternative to Alibaba.com focusing on consumer-to-consumer trading transactions, was introduced in May 2003. With seven million registered merchants, Taobao Marketplace is the most preferred C2C online marketplace in China. Taobao marketplace attributes its growth to the incorporation of commission-less transaction platform Alipay. The majority of Taobao's revenue (85%) stems from advertising.

A Taobao Marketplace, including Tmall.com, was developed in April 2008, which eventually became a separate division of Alibaba Group in June 2011. Essentially, Tmall.com is a business-to-consumer retail online shopping mall. Vendors are permitted to register and open 'storefronts' on the website and consumers can browse the different digital establishments. Tmall.com is the most popular B2C retail online web-platform, controlling approximately 50% of China's B2C market.[xxiv] The Taobao and Tmall.com platforms have been aggressively adopted throughout China, so much so that remote townships completely rely on the e-commerce platforms. These "Taobao Villages" sustain themselves by using Taobao Marketplace and Tmall.com as their main sources of income.[xxv]

An initial issue that Alibaba Group faced was the absence of an online payment platform. In response, Alibaba Group developed its own online payment platform called Alipay. Originally, Alipay was considered a peripheral component of Alibaba.com, specifically on the Taobao platform. In 2004, Alipay became a separate business. A valuable incorporated feature of Alipay is its escrow capabilities, which provides a buyer more security and more control over transactions. Alipay is the most used third-party online payment platform in China, which is responsible for approximately half of all electronic payments.[xxvi]

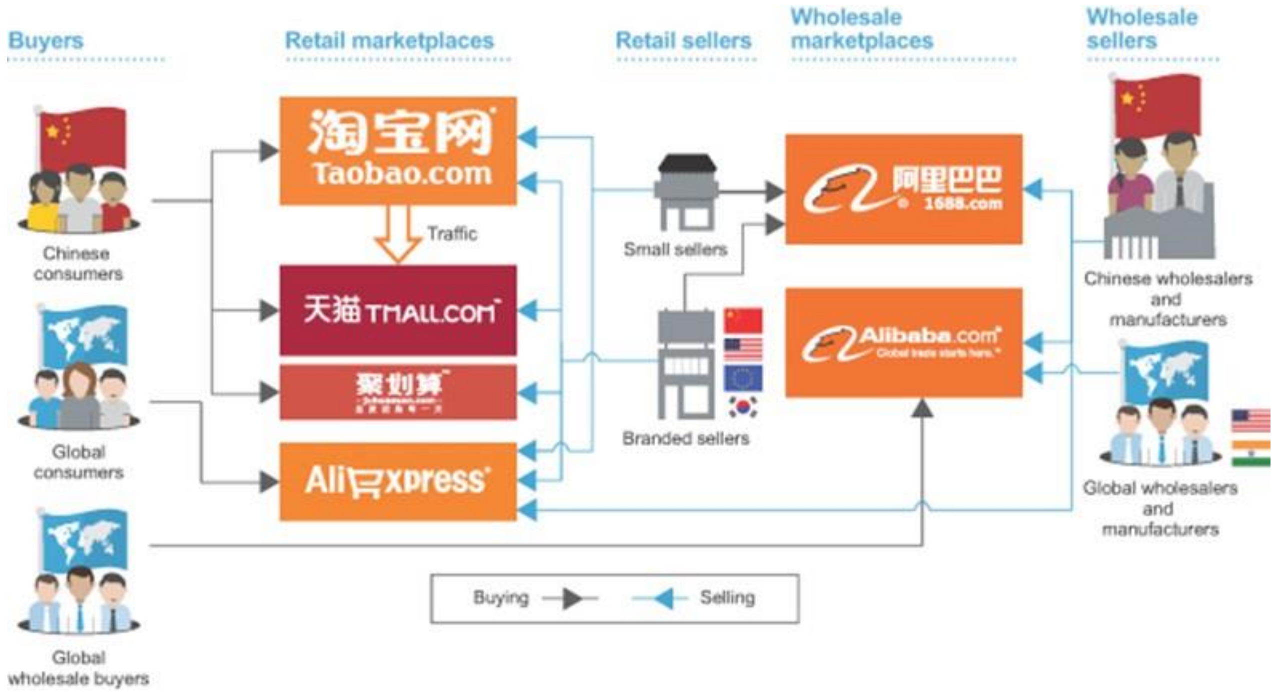

Exhibit 6: The Networks Effect on And Across Alibaba Platforms
(Source: Alibaba Annual Report)

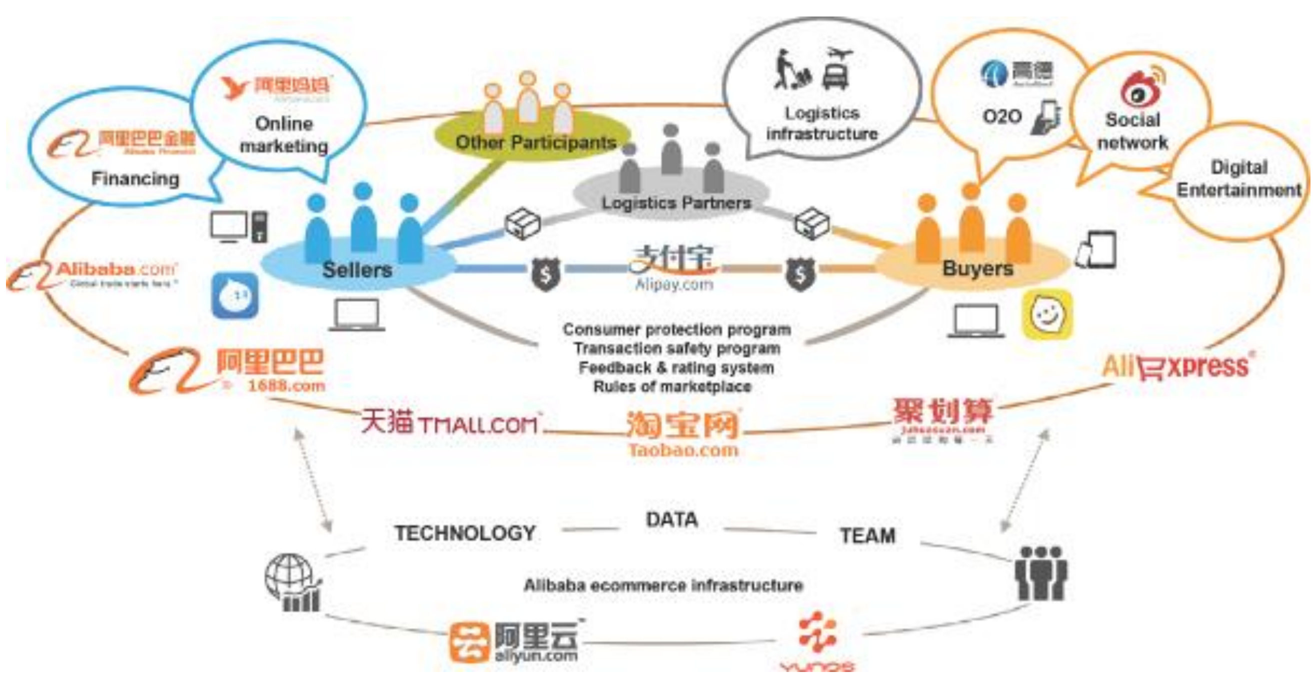

Exhibit 7: Alibaba Ecosystem and its Participants
(Source: Alibaba Annual Report)

Apart from the e-commerce businesses incorporated under Alibaba Group, many other businesses focus on adjacent markets. Aliyun.com, launched September 2009, is China's paramount cloud-computing platform. Alibaba Group shrewdly harmonizes Aliyun's cloud-computing capabilities with its other businesses. Aliyun's data mining, processing, and analytic capabilities can be applied to its e-commerce businesses, which provide massive amounts of raw data via buyer-seller transaction data.[xxvii]

ALIBABA GROWTH STRATEGY

Corporate Investments & Acquisitions

Alibaba Group's labyrinth-like internal structure is vast and complex compared to most traditional business models, yet its exceptionally constructed business architecture continues externally. Since its early years, the company has pursued acquisition and investment opportunities. Its first substantial external engagement dates back to 2005, when Yahoo! China merged its China-based operations with the Alibaba Group business ecosystem.[xxviii]

Upon the formal announcement of Alibaba's U.S. IPO, the company's acquisition and investment strategy continued to magnify. "We have made, and intend to continue to make, strategic investments and acquisitions to expand our user base, enhance our cloud computing business, add complementary products and technologies and further strengthen our ecosystem. For example, we expect to continue to make strategic investments and acquisitions relating to mobile, O2O services, digital media, category expansion, as well as logistics services."[xxix]

Alibaba has focused primarily on domestic investment endeavors, although the company has financially engaged some U.S. Companies as well. Lyft, an American car service company, and Tango, an American messaging service, are two cases of Alibaba's investments in U.S. companies.[xxx]

Alibaba has penetrated various markets through acquisitions and investments (see Exhibit 8). At times, the decisions are perceived as ambiguous and unexpected. In 2013, a stake of 18% worth $586 million was acquired in Sina Weibo, which is a Chinese company analog of Twitter.[xxxi] In April of 2014, Alibaba, along with Jack Ma's private equity company Yunfeng Capital, procured 18.5% of Youku Tudou, a popular Chinese Internet video company for a total of $1.2 billion. "We are excited to cooperate and work closely with Victor and his team to support their innovation in this key emerging space as well as accelerate our digital entertainment and video content strategy. This is an important strategic initiative that will further extend the Alibaba ecosystem and bring new products and services to Alibaba's customers."[xxxii]

Additional investments focus on mobile applications and logistics. Umeng, a mobile analytics company, was purchased for US$80 million, and Alibaba invested US$50 million in Quixley — a mobile app search engine. The delivery service joint venture, China Smart Logistics, benefitted from an investment of US$269 million, which granted Alibaba 48% ownership. A more palpable investment took place in January 2014, when Alibaba invested US$15 million in a luxury e-commerce website called 1stdibs.[xxxiii] Amid continuous investments and acquisitions, Alibaba has become a dominating force in the Chinese B2B and B2C markets (see Exhibits 9 and 10).

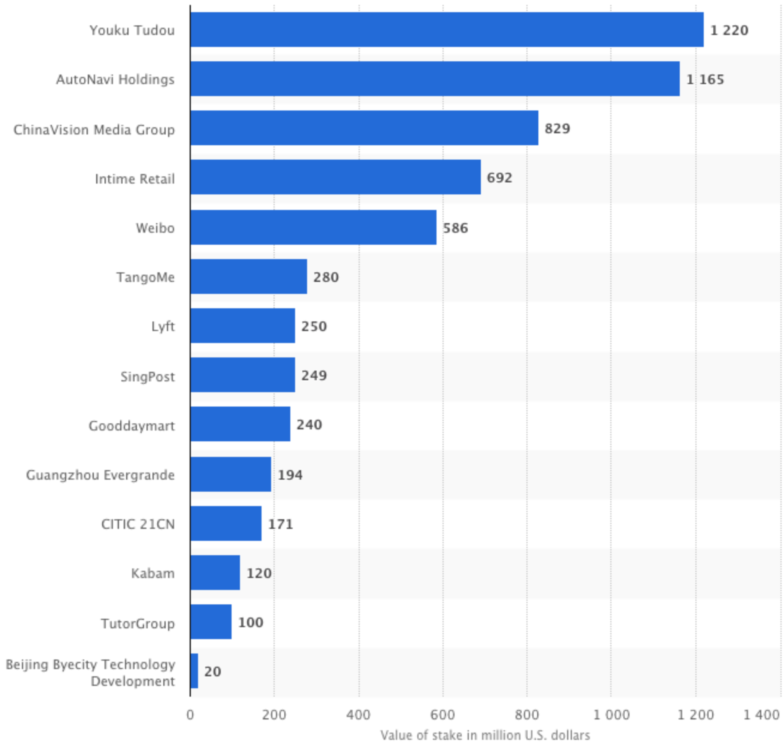

Exhibit 8: Alibaba's Investments as of 2018 (in $ Billions)
(Source: The Economist)

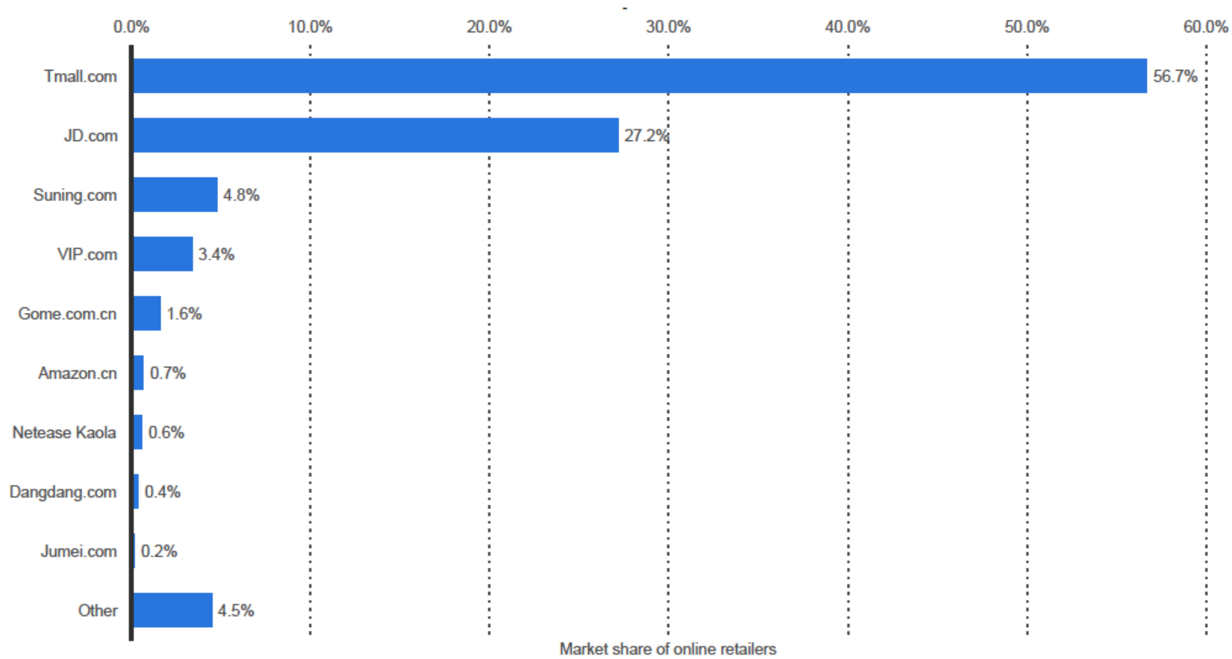

Exhibit 9: Market share of B2B e-commerce platforms in China by 2017
(Source: China e-Business Research Center)

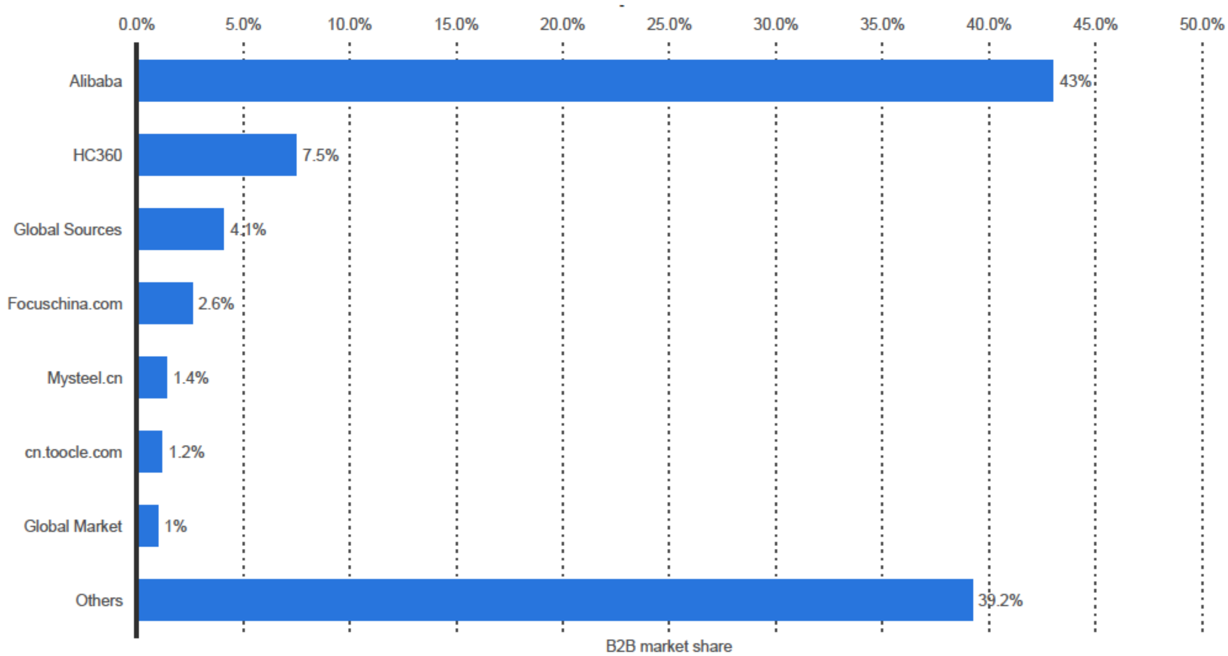

Exhibit 10: Market share of B2C online shopping websites in China by 2017
(Source: iResearch)

FINANCIAL STATEMENTS

The fiscal year is April-March. All values USD millions.	2017	2016	2015
Sales/Revenue	$ 23,522	$ 15,903	$ 12,300
Sales Growth	48%	29%	43%
Cost of Goods Sold (COGS) incl. D&A	9,474	5,863	4,181
COGS Growth	62%	40%	87%
Gross Income	14,048	10,040	8,116
Gross Income Growth	40%	24%	28%
SG&A Expense	6,786	5,390	4,353
SGA Growth	26%	24%	92%
Other Operating Expense	-	-	-
EBIT	7,262	4,650	3,762
Unusual Expense	217	(6535)	28
Non-Operating Income/Expense	1,427	766	454
Non-Operating Interest Income	779	1,102	1,526
Interest Expense	397	306	444
Pretax Income	8,921	12,810	5,218
Income Tax	2,047	1,328	1,036
Equity in Affiliates	(747)	(272)	(257)
Minority Interest Expense	(364)	(27)	10
Net Income	6,491	11,236	3,916
Net Income Growth	-42%	187%	3%
Net Income After Extra ordinaries	6,791	11,236	3,916
Preferred Dividends	-	-	18
Net Income Available to Common	6,491	11,236	3,898
EPS (Basic)	3.6	4.57	1.67
EPS(Basic) Growth	-43%	174%	-4%

Exhibit 11: Alibaba Consolidated Income Statement – 2017 (in $USD)
(Source: Alibaba Annual Report 2017)

Assets

The fiscal year is April-March. All values USD millions.	2017	2016	2015
Cash & Short Term Investments	$ 21,881	$ 18,097	$ 20,694
Total Accounts Receivable	3,241	1,901	1,825
Inventories	-	-	-
Other Current Assets	1,127	585	272
Total Current Assets	26,249	20,583	22,792
Net Property, Plant & Equipment	2,932	2,107	1,178
Total Investments and Advances	22,092	18,686	7,821
Long-Term Note Receivable	9	27	152
Intangible Assets	20,246	13,454	8,325

Other Assets	1,963	1,515	374
Total Assets	73,548	56,377	41,268
Assets - Total - Growth	30%	37%	130%
Asset Turnover	36%	-	-
Return on Average Assets	10%	-	-
Liabilities & Shareholders' Equity			
ST Debt & Current Portion LT Debt	$ 2,162	$ 665	$ 321
Accounts Payable	-	-	-
Income Tax Payable	889	431	441
Other Current Liabilities	10,556	6,949	5,637
Total Current Liabilities	13,606	8,046	6,399
Current Ratio	1.93	2.56	3.56
Quick Ratio	1.93	2.56	3.56
Cash Ratio	1.61	2.25	3.23
Long-Term Debt	11,149	8,267	8,162
Provision for Risks & Charges	91	286	-
Deferred Taxes	1,417	996	699
Other Liabilities	189	113	419
Total Liabilities	26,508	17,713	15,705
Non-Equity Reserves	-	-	106
Preferred Stock (Carrying Value)	434	54	-
Common Equity (Total)	40,463	33,576	23,526
Total Shareholders' Equity	40,897	33,631	23,526
Total Shareholders' Equity/Total Assets	56%	60%	57%
Accumulated Minority Interest	6,142	5,033	1,931
Total Equity	47,039	38,664	25,457
Liabilities & Shareholders' Equity	73,548	56,377	41,268

Exhibit 12: Alibaba Balance Sheet – 2017
(Source: Alibaba Annual Report 2017)

BRICK AND MORTAR RETAIL REMAINS STRONG IN CHINA

Annual retail revenue in China has increased from $370 billion to $2 trillion in the past ten years.[xxxiv] In terms of consumption volume, China has become the largest food and grocery market in the world that is expected to grow at an increasing rate in the years to come. After experiencing success in the e-commerce market, Alibaba recently stepped into brick and mortar retail by introducing Hema Supermarkets in 2015. Over the past two years, the company invested about $8 billion on brick and mortar stores in China. In order to increase the speed of its presence in the brick and mortar retail market, Alibaba also announced an investment of $2.9 billion in Sun Art Retail Group.[xxxv] Expanding physical presence in the retail market will challenge Alibaba in many ways, as the company has primarily been an internet business. According to National Bureau of Statistics in China, almost 100,000 retail companies are serving the Chinese people around the country. Competing with thousands of local grocery stores and vendors may not be the kind of competition that Alibaba had encountered so far.

THE COMPETITION

The Chinese digital market is expected to remain the world's largest as compared to the US and Europe. Winning in China will translate into winning as a company for Alibaba as international competitors like Amazon will make it extremely challenging for Alibaba to dominate in the global e-commerce market. By 2017, the online population in China was around 700 million as compared to 265 million in the US. Demographically, Alibaba is at an advantageous position in the world's largest digital market. However, the Chinese e-commerce market is also one of the toughest battlegrounds for technology companies. Additionally, there are many untapped markets in the developing world when it comes to the e-commerce industry. Those potential markets include Africa, South Asia, Middle East, and South America.

Alibaba faces immense competition from two kinds of competitors, and both of those are squeezing the growth opportunities for Alibaba locally as well as internationally. Alibaba's top two global competitors include Amazon and eBay, whereas the top three homegrown competitors include JD.com and Baidu. Many US companies, including Uber and Facebook, have failed to penetrate successfully in China. Nonetheless, achieving success in China as a domestic company is also almost as difficult as it is for international companies.

	Amazon	Alibaba	eBay
Holds Inventory	Yes	No	No
Consumer Credit Services	Co-branded Credit Card	No	Bill Me Later
Advertising Services	Yes	Yes	Yes
Available Technology Platform	Yes (Amazon Web Services)	Yes	Yes (Open Source Platform)
E- Payment Service	No	Alipay	PayPal
Direct Sales	Yes	No	No
Matches Buyers and Sellers	Yes	Yes (via 1688.com)	Yes
Individual Storefronts	Yes	Yes	Yes
Manufactures Proprietary Goods	Yes (Kindle/Fire)	No	No
Content Provider	Yes (Streaming videos/e-books)	No	No
Publisher	Yes (Books/music/films/ technology)	No	No
Membership Fees	Yes (Prime)	Yes	No

Exhibit 13: A Comparison of E-commerce Platforms
(Source: Investopedia)

Amazon

Jeff Bezos, the richest man in the world, founded Amazon in 1994 in Seattle, United States. From an online bookstore to a world-class e-commerce company, Amazon's growth and success is a remarkable story. It has been a star among e-commerce companies in the recent past. The stock price performance topped all the Wall Street estimates and soared about 173% from January 2016 to January 2018.[xxxvi]

Amazon follows an operational style mirroring that of offline retailers. It engages in direct selling to customers, controls its own distribution-warehousing facilities, and engages in manufacturing its own brand of goods. In 2000, the company developed platform functionality that permitted individual sellers to connect with consumers through Amazon.com. The company's website boasts, "Over 2 million third-party sellers participate in Amazon where they offer new, used, and collectible selections at fixed prices to Amazon customers around the world."[xxxvii] Amazon is revered for its extremely effective logistics and customer service.[xxxviii]

Over the past decade, Amazon has become the largest e-commerce retailer in the world. The company dominates the U.S. online shopping industry and is consistently expanding around the world. Amazon achieved remarkable milestones in terms of growth and expansion. According to Gartner Research, Amazon's public cloud services are expected to grow at about 23%, whereas the total market in the same segment is expected to grow at about 13%.[xxxix] Similar to Alibaba, Amazon's business model consists of many subcategories that include an online store, subscription services, third-party vendors, virtual assistant electronic devices, online advertising, online streaming services and many others. Amazon's annual growth rate averaged around approximately 50% over the past few years.[xl] According to Jeff Bezos, Amazon achieved success due to its customer-focused business strategy. It allowed the company to amaze its customers by developing products and services based on their own ideas and preferences.

Despite Amazon's success in the U.S. and other parts of the world, China still remains a challenging market due to immense competition. China is one of the most lucrative markets for e-commerce companies in terms of an active number of online daily users, yet it remains one of the most challenging battlefields for domestic as well as international e-retailers such as Amazon. However, the most significant threat that Amazon poses to Alibaba is in the international territory.

eBay

eBay's auction-based platform aims to connect buyers and sellers. It originally provided its own payment system called PayPal.[4] The company claims, "We are primarily a transaction-based business that generates revenue from the transactions and payments that we successfully enable."[xli] Similar to Alibaba, eBay does not partake in the holding of inventory. More recently, PayPal began offering credit services originally called 'Bill Me Later' and eventually changed its title to PayPal Credit. eBay benefits from this development because now consumers can easily access a line of credit to help confidently engage in auctions. Another business under eBay is called eBay Enterprise, which deals with marketing, advertising, retail, and commerce. The company receives revenues streams from eBay Enterprise by storefronts such as StubHub.

eBay competes with Alibaba as both companies aim to bring buyers and sellers together. eBay's payment system, PayPal, competes with Alibaba's payment system called Alipay. Despite the success of Alibaba in the domestic market, it will be a challenge for the company to compete with eBay when it comes to offering an auction-based online platform to buyers and sellers in the US and other markets outside China. eBay's brand recognition would make it difficult for Alibaba to take over eBay's customers outside China.

[4] eBay and PayPal are now separate companies. eBay still makes use of PayPal as its third party online payment system.

JD.com

JD.com, the homegrown archrival of Alibaba, offers a more traditional e-commerce experience. The company sells directly to its customers, actively holds inventory, and is responsible for taking care of its shipping and logistics. In China, JD.com is enjoying the largest volume of direct online sales transactions. JD.com is listed as JD on the NASDAQ in the United States. Although JD.com holds a comparatively smaller share of the Chinese e-commerce market, the company has the benefit of being a direct competitor of Alibaba. Therefore, JD.com is a likely ally of any company that wants to compete with Alibaba.

One of the allies of JD.com is Tencent, a Chinese internet company founded in 1998. Tencent also stands as a competitive threat to Alibaba Group when it comes to internet service portals and online payment systems. Tencent is one of the most used internet service portals in China. WeChat, QQ.com, and Tenpay are some of the online destinations that Tencent operates. Originally, Tencent was involved with entertainment and social media, but its increased popularity caused the organization to pursue progressive growth opportunities. Tencent is listed as Tencent Holdings Limited (0700.HK) on the Hong Kong Stock Exchange.[xlii]

Baidu

The most popular Chinese internet search engine, known as Baidu, was founded in the year 2000. Baidu's functionality and goals are parallel to that of Google. The company provides search engine capabilities along with other services such as maps and Internet TV. A unique and central component to Baidu's strategy revolves around the promotion of online-to-offline (O2O) services. O2O technology aims to promote consumer demand for physical business locations through mobile, and Internet applications.[xliii] Baidu is traded on the U.S. NASDAQ as BIDU.[xliv]

Baidu is trying to eat Alibaba's lunch when it comes to digital advertising. Alibaba's online advertising revenue of about $16 billion has a market share of 31% in China.[xlv] Whereas Baidu, as a search engine, holds about 18% of the digital advertising market share in China. Baidu has also joined JD.com to compete with Alibaba, where JD.com benefits by having access to millions of Chinese shoppers. According to analyst estimates, such alliances are going to make it difficult for Alibaba to continue growing at a fast growth rate.

ALIBABA'S CHALLENGES

Escalating Domestic Competition

Domestic competition in China, which once seemed nonexistent to Alibaba, has begun consolidating and developing powerful strategic partnerships. Tencent has combated Alibaba's aggressive acquisition campaign by simultaneously pursuing acquisitions in the Chinese tech market. Chinese e-commerce has been ballooning and is experiencing a move from PC-based to mobile applications. This trend has made the mobile application market an area of interest for both Tencent and Alibaba.[xlvi] Tencent developed its own messaging service called WeChat, which is widely used throughout China and has been adding e-commerce functionality to the mobile application.[xlvii]

To compete more aggressively with Alibaba, Tencent invested US$215 million in JD.com for a 15% stake, effectively forming a significant partnership. According to Tencent's 2017 earnings report, its WeChat app has almost a billion active users in China. A partnership with Tencent would give a huge advantage to a competitor like JD.com by providing access to the largest group of consumers in the world. Tencent's competencies, in conjunction with JD.com's strong position in the e-commerce and excellent logistics infrastructure, furnish the cooperating organizations with a competitive advantage. Vice President of Forrester Research Bryan Wang elaborated, "JD was competing with Alibaba ... however, the scale was too small. But now with the WeChat platform that's a game changer."[xlviii]

Aside from Tencent's collaboration with JD.com, the company looks to Baidu and a property firm called Dalian Wanda Group to develop a massive e-commerce platform. Dalian Wanda owns 70% of the venture, while Tencent and Baidu hold 15% each. At the heart of the e-commerce venture lays the dedicated integration of online-to-offline functionality. Dong Ce, the O2O venture's chief executive, declared, "By teaming up with Tencent and Baidu, Wanda will become the biggest online-to-offline e-commerce platform in the world." The joint venture's total investment sums up to $790 million. "The deal is structured over three years … the initial investment by the three firms will amount to 1 billion Yuan," said Tencent.[xlix]

GOVERNMENT REGULATIONS IN CHINA

Recently, Alibaba ran into problems with China's State Administration for Industry and Commerce (SAIC). A scolding statement was publicly released haranguing Alibaba about the excessive presence of fraud on their e-commerce platforms. SAIC announced that in a sampling inspection, 63% of the products sold on Alibaba's online Taobao marketplace were found to be 'unauthentic' – meaning they were fake, discredited or came through unauthorized channels.[l] The SAIC statement also divulged that company employees were facilitating the illegal activity by partaking in commercial bribery. It was suggested that in exchange for financial compensation, employees, with the ability to control merchant placement, would ensure better platform placement. SAIC mysteriously retracted its formal accusation. "We feel vindicated," stated a spokesperson on behalf of Alibaba Group.

For some time Taobao Marketplace has dealt with grievances hinging on the alleged presence of counterfeit goods. This spat between a Chinese government agency and a Chinese-based corporation was distinctive. Xinhua News Agency described this event as "the most heated confrontation between the government and an enterprise in the era of the Internet economy".[li] Chinese bystanders hypothesized that this kind of government behavior could forecast further harassment for Alibaba. The source of heckling is postulated to arise from China's 'drill down', "on intellectual-property protection in its effort to overhaul the economy, pumping up consumption and reducing reliance on cheap labor, exports, and big-ticket spending projects."[lii]

While this was not the first instance of discord between a weighty corporation and the Chinese government, Alibaba's defensive positioning is unique. Alibaba drives Chinese e-commerce so significantly that any major persecution would lead to a setback to the Chinese economy. Alibaba maintains deep political connections in the Chinese government because government agencies have a vested interest in the firm's NYSE stock listing.[liii]

Exposure to International Competition

In comparison to eBay and Amazon, Alibaba's volume of sales and global market share reign supreme. While impressive, and perhaps intimidating for U.S. firms, this does not mean that the company will easily penetrate U.S. e-commerce territories. Alibaba's brand recognition within the U.S. is relatively low in comparison to eBay and Amazon. Similarly, U.S. e-commerce and Internet companies find it extremely difficult to comfortably position themselves in Chinese markets. It is likely that the competing firms will dominate their respective domains. The competitive arena for Alibaba Group and U.S. brands, such as eBay and Amazon, is expected to take place outside their homelands. Foreign developing markets, such as Africa and South America will probably become the targeted untapped regions where these competitors will confront each other.[liv]

Until an IPO on the U.S. NYSE, Alibaba Group had exclusively centralized its operations within China. The Chinese government acts as a supportive proponent to any domestic company that has potential to grow into a global player in the tech industry. The Chinese government has put certain policies in place to promote local firms, protecting them from foreign competition. Recently, Alibaba acquired Sina Weibo, a social platform like Twitter, as a move into Chinese social networking. Alibaba was able to move into the social media business because global leaders, such as Facebook, were not permitted in China. Alibaba was effectively given an advantageous handicap with the absence of outside competition. A parallel to this protective cultivation of the social media market lies in online video content as well. For instance, YouTube is banned in China, which might allow Alibaba to enter the market at its own leisure.[lv]

The most important market incubation provided to Alibaba Group, naturally, lies in the e-commerce. While U.S. firms are not restricted from entering the Chinese e-commerce market, the Chinese government makes it difficult on purpose. eBay's operations were overshadowed by the growing success of Alibaba's Taobao Marketplace. Amazon is still persistently engaged in efforts to penetrate the Chinese market. The company has not faced much detrimental government attention, but it is hypothesized that this is due to its lack of success.[lvi]

LOOKING AHEAD

Stemming from ambitious entrepreneurial dreams, out of his modest Hangzhou apartment, Jack Ma's Alibaba was born. Through the evolution of its core businesses and bustling expansion into new, complementary markets via external acquisition, Alibaba Group commands a vast ecosystem of businesses. In the appraisal of Alibaba's performance, we see a company that expanded exponentially within fifteen years — dominating the Chinese market and launching the biggest IPO in world history.

Currently, the company is facing a variety of pressures and threats. In the domestic domain, competition is mounting fast. Upon venturing outside China, Alibaba has increased its exposure to foreign competitors. Undoubtedly, the company's prosperous growth has been assisted by China's restrictive foreign policies. Alibaba's presence in the US Stock market and adherence to SEC standards inevitably leaves the company more transparent and vulnerable as compared to domestic Chinese companies as well as foreign competition. Despite the past success of Alibaba, the future of this Chinese e-commerce giant remains unpredictable. While Alibaba is equipped with many resources to pursue growth and success, increasing competition in the domestic and international markets will continue to make the company's growth more difficult. Time will tell whether Alibaba will be able to achieve success in the unique markets of the world. However, a closer look at global e-commerce infrastructure and players involved tells that success will depend upon huge efforts and good luck.

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