

## “Strategic Marketing Analysis of Alibaba Group”

*Harshvardhan Pareek  
University of Warrick*

### **Abstract:**

**Purpose:** The purpose of this study is to analyse Alibaba Group and understand its strategies, study its competitors, and analyse the role they play in the industry along with the external as well as the internal factors that drive it.

**Research Methodology:** The data was collected through the Alibaba Group website along with various international journals and studies published on Alibaba. Furthermore, tools such as Porter’s Five Forces analysis, VRIN framework and Competitor SWOT analysis were used to support the research.

**Findings:** It was concluded that Alibaba Group has successfully been able to exploit its Cost Leadership Strategy and non-imitable resource structure. Easy internet access with the help of advanced technologies helped the ecommerce giant to tackle the challenges it was facing and might face in future. It has been concluded that innovation comes at pinnacle of the decision-making pyramid.

**Research limitations:** The data cannot be collected through a questionnaire in any form. Moreover, close analysis was not possible from the competitors because of the data secrecy and size.

### **Mission Statement**

“To make it easy to do business anywhere” (“Alibaba Group”, 2021)

### **Vision Statement**

“We aim to build the future infrastructure of ecommerce. We envision that our customers will meet, work and live at Alibaba, and that we will be a company that lasts at least 102 years.” (“Alibaba Group”, 2021)

### **Company Overview**

As a part of the privately owned Hangzhou-based family, Alibaba Group offers online marketplaces in order to facilitate business-to-business trade on both international and domestic levels. In addition to this, other services that the group provides include retail and payment platforms, shopping search engine and data-centric cloud computing services. With over 115,000 employees across the 70 cities of its main operations, Alibaba Group is considered to be the largest non-American retail brand in the world. However, it is expected that Alibaba group will greatly expand in the coming decades as was highlighted by Michael

Porter: “given that the internet is growing and international trade increasing and more and more people are coming online, there’s plenty of room to grow for the next fifteen to twenty years.”

The evidence of Alibaba’s constant growth and success can be seen from their quarterly reports where in September 2019, a 40% increase in EBITA (Earnings before Taxes) was noted on its USD 4.5 billion investments. Moreover, the group holds more than 50% share in the Chinese market. In addition to this, Global expansion and innovation is a part of Alibaba’s strategic decision making where the company aims to multiply their cross-border operations and make functional operations such as logistics and quality more efficient. Recently, the company has entered into an agreement with the Ethiopian Government with the aim of providing the country’s SMEs greater reach globally (Deng, 2020).

### Industry Overview

#### Macro environmental forces

There are numerous macro environmental factors that impact the operations of the Alibaba Group within China and also extrapolates to its international operations as well. These factors are explained using the PESTLE analysis below:

<p>Political</p> <p>Chinese governments support for AI and digitalization</p> <p>Hong Kong listing easing the US political pressure</p>	<p>Economical</p> <p>Changing economic factors i.e. inflation rate, exchange rates.</p>
<p>Social</p> <p>Growing populations in the target market</p> <p>Impact of strong CSR activities</p> <p>Aging population in the country of origin – China</p>	<p>Technological</p> <p>Use of Big Data and Ai driven user experience</p> <p>Technical advancements in the core operations – faster logistics etc</p>
<p>Legal</p> <p>Lawsuits against counterfeits and product scrutiny</p>	<p>Environmental</p> <p>Recent emphasis over water conservation</p>

("Alibaba SWOT&PESTLE Analysis", 2021)



("Worldwide retail e-commerce sales reach \$1.9 trillion in 2016", 2021)

### Competitor Analysis

There are many competitors of Alibaba Group as the group’s subsidiaries and affiliated companies are penetrated into numerous tech related industries as well. However, there are two main Chinese competitors for Alibaba Group and they are Global Sources and Made-in-China.com. These competitors have challenged Alibaba mainly on the basis of their experience and presence in the market for a greater number of years than Alibaba. However, Alibaba’s brand image and perception has been of great benefit to the company, which outweighs the threats from these two competing groups. On an international front, main competitors for Alibaba are eBay and Amazon. With a consistent rise in the e-commerce sales, Alibaba, a forerunner in the domestic Chinese market, should focus on its core value proposition and expand internationally. This is because for a sustainable competitive advantage to last for a decent amount of time, it is necessary for the company to have a firm grasp across borders.

### **Porter’s Five Forces**

In order to better understand the factors playing a vital role in constructing the competition within the ecommerce industry of China, Porter's Five Forces Framework will be used. The Five Forces Framework identifies five forces that play a significant role in shaping different markets and industries. These forces / factors can also be used in understanding the level and correlation within the competition, attractiveness of a certain market, and profitability of that particular industry. More importantly, the framework guides business strategy with the aim to increase and establish a sustainable competitive advantage. The Five forces framework portrays the structure of an industry in terms of: (1) The threat from potential entrants, (2) The bargaining power of suppliers, (3) The bargaining power of buyers, (4) Pressure from substitute products, and (5) The intensity of competitive rivalry. The structure is used to

explain industry profitability and enable a firm to position itself favourably vis-à-vis its competitors (Baburaj and Narayanan, 2016). These forces, with respect to the Alibaba Group are discussed as follows:

#### The Threat from Potential Entrants – Medium

Firms are drawn by high returns of the industry. New entrants in the ecommerce market will offer better cost model, and better performance, thus, presenting Alibaba with a challenge (Gong, 2020). However, these challenges are curtailed by the infeasibility of entering into the ecommerce market at the level of Alibaba. Still, some companies have been able to penetrate into the market – finechemical.com and textilehome.com. Therefore, the Alibaba Group must address the weaknesses and exploit more opportunities and niches that exist within the market.

#### Bargaining Power of Suppliers – Low

Many specialist retailers and other manufacturing industries purchase raw materials from a variety of suppliers (Qing-Rui et al., 2020). When there is scarce supply in the market, dominant suppliers exploit the firms. However, in the case of the Alibaba Group, suppliers do not have a strong bargaining power. This is because of the two major factors. First, the Alibaba Group is not a pure manufacturing firm and rather an e-service firm and hence, its supplier demands are less complex. Secondly, being a powerful service provider, Alibaba uses its organisational status and reputation to eliminate the unaffordable costs of specialised retail organisations. However, in case of an increased bargaining power of the sellers, firms are expected to lose out on the overall profitability that can harm that company's competitive advantage in the long run.

#### Bargaining Power of Buyers – Medium

The buyer bargaining power refers to the ability of the targeted customers to put the firm under pressure with respect to the prices and also determines the sensitivity of the customers in a given market to the subsequent price changes. Given the scale of Alibaba Group's operations, the buyers that are usually other businesses, have little control over the terms of agreement. However, with the widespread use of internet and technological advancement, other platforms are also offering similar services and hence, the buyers are having a greater power as compared to before. In future, this power is likely to shift in the buyers' favor and hence, Alibaba needs to make sure that its value proposition is such that it attracts wider customer base (Bhowmik, 2012).

#### Pressure from Substitute Products - High

Existing products and services that are substitutes to each other add to the propensity of customers to switch to other available alternatives in pursuit of better prices or quality. In case of Alibaba, self-owned online stores and websites are the most important substitutes.

However, loss of an existing greater audience of Alibaba reduces the appeal of these substitutes (Bhowmik, 2012). On the other hand, societal norms play a crucial role in this as some cultures have a norm of physical stores and shopping, and in this specific case, the risk of substitutes is very high.

### The Intensity of Competitive Rivalry – High

This is a vital determinant for the competitiveness and appeal of an industry. Competition may be aggressive – price wars – or it can also be collaborative in a way that it is focused towards innovation and greater quality. The Alibaba Group is active in a very serious sector of specialized retailing and other sectors (Nazir et al., 2020). This results in high competitive behavior of the firms within each industry. Moreover, as there isn't a great difference among the companies in the ecommerce industries in terms of their offering, the rivalry is usually funneled down to the user interface and customer relationship management.

### **Alibaba's Business Level Strategy**

#### General Strategy Framework

Being a pivotal B2B company in the ecommerce sector, Alibaba aims to facilitate retail companies throughout the world by offering them a platform for global trade by providing the core operational services such as logistics and improved stock management. As its generic business level strategy, Alibaba Group has adopted cost leadership – a source of the company's competitive advantage. In cost leadership strategy, Alibaba aims to follow low-cost strategy stemming from cheaper procurement and economies of scales, eventually helping them in translating those costs in the form of low prices. Moreover, targeting mass markets is another common feature of this strategy. However, there is one major challenge that the Cost leadership strategy poses on the management and decision maker – product quality. This is because low cost products are perceived to have low quality. Alibaba has been able to overcome this challenge successfully by means of unique positioning where the firm positions itself as a low cost provider of high quality products, falling into the bracket of "More for Less". (Kataria and Kataria, 2021)

An in-depth analysis of Alibaba's business strategy shows that the firm has been able to control the costs and push them downwards by means of efficient use of technology and automation. Moreover, there are certain costs that Alibaba has been able to bypass by being an ecommerce company. These costs include inventory holding costs, rental or lease costs. Thus, the company has been able to maximize its overall profit by means of effective Cost Leadership Strategy.

#### VRIN Framework

Analysis of Alibaba's available resources can also be done by means of VRIN analysis that explains the extent to which one particular resource contributes to the unique standing and

competitive advantage of that company. It measures this on four aspects – Value, Rareness, Imitability, and Non-substitutable. The following table analyze the relevant resources of Alibaba by the use of VRIN Framework:

Resource	Valuable	Rare	Imitable	Non-substitutable	Competitive advantage
Financial resources	Yes	Yes	No	No	Yes
Product and Service range	Yes	No	Yes	Yes	No
Human resources	Yes	Yes	No	No	No
Innovative capabilities	Yes	Yes	No	No	Yes
Supply chain system	Yes	Yes	No	No	Yes
Leadership	Yes	Yes	No	Yes	Yes

### Competitive Advantage for Alibaba

- According to Jack Ma and interim CEO Liu Qiangdong, its philosophy has been reduced to a customer-friendly and customer-centric philosophy.
- Alibaba benefited from easy access to the Chinese market. The creation of the Taobao shop was accidental. The costs related with selling on the platform are clear, and the relationship is transparent (Zhang and Wang, 2018). Buyers only need to confirm their identity when registering for a user account. This makes it easy to buy and sell with Alibaba.
- Alipay and Alibaba are one of the most reliable companies in China. By creating Alipay, Alibaba has overcome the online payment system's security problems in the Chinese market. This is one of Alibaba's competitive advantages, which has benefited the Chinese market. Driven by this strategy, the Chinese e-commerce market has grown rapidly, contributing to Alibaba and Alipay's success.
- Alibaba is a trading platform that contains an online sales portal, a protected and easy-to-use payment system (Alipay), an expanding logistics network and a growing range of financial services, many of which offer advantages over traditional financial institutions

(such as banks). Due to the high level of fragmentation in the Chinese market, Alipay is well ahead of Alibaba's platform globally and is accepted by both B2C and B2B markets.

- Economies of scale are another advantage for Alibaba. As it can appeal many customers and suppliers, it can negotiate lower prices with its suppliers and pass on these advantages to its customers. Alibaba's excellent supply chain gives it a cost benefit. This allows the company to offer the highest quality products at a lower cost and faster delivery times.
- Alibaba's ability to provide the best value and customer service online at a lower price has increased customer base and maintained development in the highly competitive Chinese market.
- Alibaba has adapted the website according to the needs of its local customers. Chinese customers want the website to provide everything they need on the homepage. As a result, Alibaba has become the favorite e-commerce company in China.
- Although Alibaba faces strong competition from companies such as Jingdong.com, Amazon and Tencent, it can gain a large market share due to its pioneering, customer-focused strategy.

### Alibaba’s Corporate Level Strategy

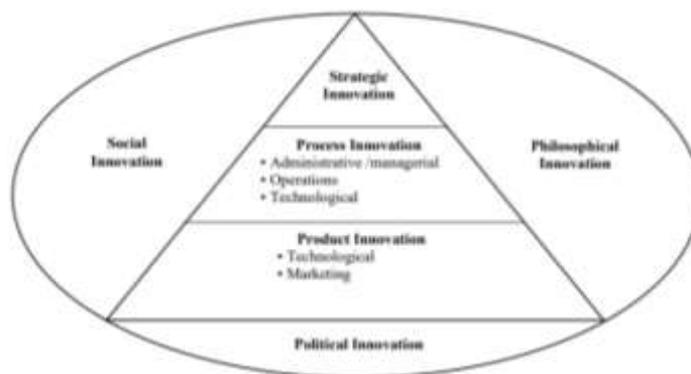
Alibaba implements a corporate level strategy that tracks the pattern of the partnership model. The corporation uses a partnership model that depends on its strengths. The corporation also announced the completion of major changes in the control group on 10 September, emphasizing the promotion and training of the company's young designers and progressed towards greater diversification and globalization in the workplace (Gong, 2020). Though, the company did not have the opportunity to reflect on its assessment of "serious and joyful living and working" because Managing Director Jack Ma defended overtime as a gift that shows that there is a certain balance in the company's working and living culture. In addition, with pleasant logistics, foundation and company, the emphasis on the use and empowerment of young people for progressive activities will help shape a work culture in a more modernized space and benefit the corporation to grow globally in an alternative market; though, to achieve this, Alibaba needs to make the company's actions reasonable. The following table explains the corporate strategy in terms of the three features – corporate scope, differentiation strategy, and parenting advantage:

Corporate Scope	3 core businesses – Alibaba, Taobao and T-mall – with penetration into different markets
Differentiation Strategy	Positioning as a middlemen eliminating the need of warehousing and costs associated with it. Extensive economies of scale.
Parenting Advantage	High synergy between business components

**Recommendations**

Alibaba Group has been successfully exploiting the gains coming from their Cost Leadership Strategy and non-imitable resource structure. However, as a result of easy access to internet and technological advancement, it is imperative for the ecommerce giant to tackle the challenges it is facing and may face in future, as highlighted through the Porter’s five forces framework in the prior section.

Therefore, it is recommended that the Alibaba Group should focus on the innovation aspect of their business operation in an extensive manner. This is because innovation is not limited to the product or process improvement but also includes Strategic innovation – innovation at the highest level of decision making. Moreover, considering the operating scale of the Alibaba Group, it is also recommended that the company must take into consideration the external forces of innovations as highlighted in the exhibit below (Dogan, 2017):



**Figure 1: Innovation Formats**

Source: (Ahmed and Shepherd, 2010: 7)

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