Research in China’s Alibaba’s Development

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Abstract—The five marketing strategies of Alibaba have accelerated its development and helped to distinguish itself in the field of e-trade in the world. Firstly this paper reviews Alibaba’s development, then analyzes its five marketing strategies and the creditability it has attached importance to. Finally it provides some proposals for its future development after the global financial crisis.

Keyword: Alibaba, e-Trade, SMEs, credit, marketing

I. INTRODUCTION

II. ALIBABA’S THIRTEEN YEARS SHORT HISTORY
Alibaba’s development can be divided into five phases during the last 13 years.

The first phase (1998-2001): Providing free information for companies to enter the market. At that time, China’s e-trade was still in the initial stage and involved only information flow. Alibaba looked into the needs of the small and medium-sized enterprises (SMEs) in China, classified the enterprises’ information in order to enter the B2B e-market by providing them with free and information services online according to their different industries and characteristics.

The second phase (2002): Carrying out the enterprise credit certification for making profits. As the credit has been the biggest obstacle to China’s e-trade development, Alibaba firstly adopted its method for credit authentication named Trustpass in order to relieve the buyers and sellers of their concern over fraud and deceit. By providing the Trustpass services to SMEs, Alibaba began to generate its income.2

The third phase (2003-2004): Developing overseas markets to expand the scope of e-trade. China Suppliers helps enterprises to build their own English websites and provide them with independent accounts and passwords so that the business information of these enterprises is available online to nearly 420 thousand professional buyers from 220 countries, which can create a great number of business opportunities for these enterprises.

The fourth phase (2005-2007): Creating a new extendable e-trade search engine after merging www.yahoo.com.cn. Alibaba established its own system for information search at www.yahoo.com.cn, online payment through the third party at alipay.com, and C2C shopping at taobao.com so as to provide broader communication space and extensive e-trade platforms for businessmen all over the world.2

The fifth phase (2008-): Developing a new online transaction model to enter the B2C (business-to-customer) market. The development of B2C was lagging far behind C2C and B2B in China's rapidly developing e-trade market. Therefore, under the background of the uneven development of e-trade in China, Alibaba adjusted its strategy in due course to enter the B2C market.

With its effective marketing strategies, Alibaba has achieved a success miracle beyond the imagination for any traditional enterprises in the past 13 years. The rapid increase of Alibaba’s total number of registered users or clients, its revenue, profit attributable to equity owners, and its paying members are shown Figure 1, Figure 2 and Figure 3 and Figure 4 respectively. According to Alibaba’s annual performance report, by the end of 2010 its total registered users, total revenue and paying members had amounted to 61.8 million, RMB ¥ 5.5576 billion and 809,362 respectively. They increased by 31.6%, nearly 30% and 43.4% respectively in comparison with the same period of the previous year. If Hichina is included, its paying members amounted to one million.

1 china.alibaba.com, www.alibaba.com, chinese.alibaba.com

III. ON ALIBABA’S 5Ps MARKETING STRATEGIES

The term of 4Ps firstly was presented in the 1960s by Professor McCarthy, an American marketing scholar. They refer to Product, Price, Place and Promotion. In his opinion, every successful and complete marketing activity involves putting the right product or service into the specific market at the proper price through the appropriate promotion channels. However, Alibaba services can be tailored upon the customers’ request and its members can be provided with personalized services.
and customized services. Therefore we will analyze Alibaba’s 5Ps marketing strategies, namely Professor McCarthy’s 4Ps plus PERSONIFICATION.

A. Alibaba’s Products

1) Virtual Products

Alibaba has established the most consummate e-trade platform by now, and has developed a set of mature service system to provide his customers with e-trade services. The virtual products of Alibaba have been characterized by the following:

a) Convenient and prompt issuance and management of information

Alibaba can provide its users with the convenient services of issuing and updating information. Its users, namely exporters can upload and update their information freely by entering their database and then contact buyers overseas directly. Meanwhile, Alibaba has also developed a multi-functional management system behind, including the functions like picture banks, products display according to their categories and provides its users with convenient and prompt services which are available at many other e-business service providers. 5

b) China-tailored payment instrument

Because China’s credit system has much room for improvement and poses a great barrier to China’s e-trade development 6 Alibaba has designed the payment instrument Alipay with Chinese characteristics. Before the emergence of Alipay, the seller felt reluctant to ship his goods to the buyer in most cases until the buyer has effected payment. With the participation of the third party in the mode of Alipay, this practice greatly lessens the risk of the e-transactions and relieves the buyer of his concern over the failure of the delivery or the delivery of fake and faulty products. (See figure 5). 5

c) Sound evaluation system

Alibaba has worked out a sound evaluation system, in which both the seller and the buyer make comments on each other after each business transaction is completed and the comments will appear on each other’s webpage each time, thus providing references for their next business partner. The evaluation system can reduce both sides’ dishonest behavior, make the deal more transparent and credible, and finally facilitate business transactions. 5

2) Brand promotion

The corporate name and the domain website name of Alibaba come from an ancient fairy tale known by most of people all over the world. “Alibaba” is easy to pronounce and to remember. Because its syllables are clear-cut and sound good, it can help to raise the brand awareness. The combination between the enterprise domain name of alibaba.com with the enterprise name of Alibaba can improve Alibaba’s brand value with the increase in online traffic and the improvement in domain name awareness.

3) Services

Alibaba establishes forums at its alibaba.com and taobao.com to make the communication among customers convenient and effective, and then it can gather the feedback from its customers at these forums. Alibaba also provides its clients with some communication tools such as Alitalk, Yahoo Message or Taobao Wangwang, so that its customers can conduct business negotiations at any time among themselves. Moreover, with these communication tools, the clients of Alibaba can obtain the updated information of supply and demand in the market instantaneously.

B. Price Strategy

At the very beginning, Alibaba provided free registration and information services for its clients in order to elbow its way to the e-trade market. After a considerably big number of clients have registered at alibaba, it began to charge membership fees. The Trustpass membership fee is RMB ¥2800 or US$ 365 and the China Suppliers membership fee ranges from RMB ¥40,000 to RMB ¥200,000. Alibaba’s income mainly comes from China Suppliers and Trustpass members. At the beginning Taobao and Alipay adopted the same free membership strategy in order to develop the market. Until now, Taobao still provides free services to C2C customers, but from 2007, Alipay began to collect technical service charges from business transactions outside Taobao and Alibaba. 7

C. Place Strategy

Alibaba was established in Hangzhou, the capital city of Zhejiang Province in the east of China, developed its customers in the Yangtse Delta Region, finally its customers have extended to all over the world. Now it has become the world leader in e-trade. It owes its success to the Zhejiang booming economy in which the small and medium-sized

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1 S. L. Deng, Theories and Practice of Network Marketing, People Traffics Publishing House,2006
5 baike.baidu.com, blog.china.alibaba.com
private enterprises have been mushrooming and therefore its market economy has fully developed.

In order to get the lion’s share of the world market, Alibaba has localized its e-trade services by creating different websites in different languages and tailored their designs and layouts to the local cultures and traditions in the local markets overseas. For example, its English website is tailored for buyers overseas in general while its Chinese website is tailored for China’s domestic B2B traders and its Japanese website aims at the Japanese market. In addition, Alibaba has established websites in the Korean and Spanish languages, which helps Alibaba to expand its market share in different regions and markets and broaden the sales channels for goods or services. All these play important roles in Alibaba’s global development.

D. Promotion Strategy

Alibaba precisely targets its clients, namely the small and medium-sized enterprises (SMEs) and individual businessmen. Since China adopted the reform and opening-up policies, SMEs have played a very important role in the national economy. According to the data released by the State Council in 2007, the number of China’s SMEs had reached nearly 42 million, which accounted for more than 99% of the total number of enterprises in China, and the SMEs’ industrial output value, taxes and the total export volume accounted for 60%, 40% and 60% respectively. Besides, China’s SMEs also provide more than 75% of the jobs in cities and townships in China. They have also made 65% of China’s inventions and developed 80% of the new products in China. Since China’s accession to the World Trade Organization (WTO), its SMEs have been authorized to engage in exportation. However, compared with the large state-owned enterprises (SOEs), SMEs are not strong enough to compete with SOEs in human resources, financial strength and economic scale, which results in SMEs’ unstable customer relationship and business performance and they have been eager to establish new trade relations through the Internet in search of business opportunities. Alibaba came into being to just meet the needs for the SMEs and helped them to promote their products on the international market through the Internet, resulting in the SMEs growing up to be the mainstay for the development of e-trade in China. As the "2007 ~ 2008 China's SMEs B2B E-Commerce Development Report” indicates, in 2007 about 11.74 million SMEs accounting for 34% of the total have adopted a third-party e-commerce platform. Their total trade volume of B2B reached RMB¥2,450 billion in 2007 and the SMEs contributed 57.8%. All these show that Alibaba made the wise decision regarding its target clients. By the end of 2007, about 200,000 individual netizens have set up their shops in Taobao.com to promote their products on the Internet.

Because Alibaba had limited financial resources in its early stage of development, it established forums and added its site links to those forums in order to advertise its services, expand its recognition and make sales promotions, and achieved good results. With the development of Alibaba, it tried to make the full use of the Internet to make various kinds of sales promotions, such as organizing the activity named “West Lake Internet Symposium”, establishing the e-commerce department with Hangzhou Dianzi University and the Alibaba College with Hangzhou Normal University. After merging with Yahoo China, Alibaba used theyahoo’s search engine to get a quick link to Alibaba.com, Taobao.com and its other websites, which successfully increases the click-through rate and expands the recognition of its sites.

E. Personification Strategy

In the terms of the webpage design, Alibaba and Taobao have made efforts to make their webpages simple and easy to operate with Chinese characteristics and they are popular among Chinese clients. In addition, its clients can also design their webpages on their own by uploading and updating pictures and information of their products.

All messages sent by the Alibaba’s members are classified and processed by its full-time message editors so that its members can be provided with high quality and value-added information services without the incredible and junk messages or information, which has become the key factor in the recognition of Alibaba among its members. Its personalized and considerate services are becoming increasingly professional, refined and customer-friendly. Even for its free new services, they are available to its customers only after three-month trial by its clients.

IV. THE PROPOSALS OF ALIBABA AFTER THE GLOBAL FINANCIAL CRISIS

A. The Effects of the Global Financial Crisis

The world economy stepped into the period of depression in 2008 as a result of the global financial crisis. IMF points out that the economic condition of the major developed economic countries is “nearly or already under the regression” with their murky economies, bleak stock markets, declining people’s living standard, depreciating currencies and falling import demands. Due to the declining import demand from these developed countries and the increasing costs of the global energies and primary products, China’s exportation was decreasing and China’s economic growth was slowing down. As a result, the Chinese SMEs, especially those export-oriented ones, were struggling for survival.

B. The Fraud Scandal

According to the report at http://jjckb.xinhuanet.com/ visited on February 25, 2011, it was confirmed that adversely affected by the global financial crisis, 1219 China Suppliers in 2009 and 1107 China Suppliers in 2010 at www.alibaba.com (1688 H K) were respectively involved in the fraud scandal, accounting for 1.1% and 0.8% its Gold Suppliers respectively. In order to make more profits, those China Suppliers took advantage of the services at Alibaba, cheated the buyers overseas by promoting the sale of their products at surprisingly low prices. Alibaba’s nearly 100 marketing employees signed contracts with those deceptive China Suppliers who have cheated buyers overseas. In order to settle the claims from 2249 victimized buyers overseas,

Alibaba allocated US$170 million to make compensations, shut off those deceptive China Suppliers’ websites, including 1200 Gold Suppliers at www.alibaba.com; finally laid off those marketing employees, held its CEO, COO, CFO and CPO responsible for the fraud scandal by forcing them to resign.

C. The Fake Products in Yongkang


D. The Proposals for Alibaba

Regarding the fraud scandal at www.alibaba.com and the cases of fake products in Yongkang city sold at www.taobao.com after the aftermath of depressing global economic situation, we would like to make the following proposals for Alibaba’s future development.

1) Offering free and testing services to its new clients for a trial period in order to reduce its clients’ financial burden and to let them get familiar with the new products and services. It will not only alleviate its clients of the burden, but also can let its clients get to familiar with its services well.

2) Further subdividing the target clients according to their industries and categories. Alibaba is a hodgepodge where there are all conceivable kinds of products and goods offered by its clients or members. Sometimes it is so difficult for overseas buyers to find the product at Alibaba that they turn to other e-trade enterprises for business information. This has made it necessary for Alibaba to further subdivide its target clients in order to stop its target clients from turning to other e-trade enterprises for business information.

3) Adopting a new price strategy and a new fee-charging pattern to attract more members. Alibaba should further divide its China Suppliers and Trustpass members into different ranks or categories so that different fees may be charged on the basis of their categories or ranks. For instance, Alibaba can charge a standard China Supplier a high annual fee while it may charge a junior China Supplier a comparatively discount fee.

4) Building up the Customer Relationship Management (CRM) system to reduce the difficulty in trading. The core idea of the CRM is to find out what the clients think about and how to meet their needs so as to increase its sales volume and improve its management and operation. The relationship among the clients of Alibaba is complicated as it involves different languages, cultures, customs, laws, technologies and so on. Only by using the personalized CRM system can Alibaba meet different demands from their clients by following their different customs to reduce the difficulty in trading.

5) Banks worldwide supporting e-trade and e-payment. E-trade involves e-payment among different banks worldwide. If people want to complete business transactions FULLY online, they have to be equipped with an effective payment system online, which involves different banking systems and foreign exchange policies. Therefore all banks worldwide have to support e-trade so that e-payment can be effected without any difficulties across borders and nations.

6) Using the REAL names at www.taobao.com. Anyone selling products online must use their REAL names and should apply to the competent authorities, namely the local business administration departments for business licenses with their ID numbers so that their business operation can be effectively supervised.

7) Reinforcing legal education to and supervision over Alibaba’s staff, members or users or China Suppliers at www.alibaba.com and traders at www.taobao.com, especially regarding the protection of intellectual property rights, the cultivation of brand names for China’s SMEs and the importance of creditability of businesses.

V. CONCLUSION

As one of the China’s most successful e-trade service suppliers, practitioners and pioneers, Alibaba has built an effective information bridge between Chinese SMEs and overseas buyers and a boundless market for its individual businessmen by providing its distinctive high quality personalized services at reasonable prices with multi-dimensional marketing channels, novel dissemination and promotion methods. As a pacemaker in e-trade, Alibaba has created a miracle in China’s e-marketing in the 21 century after only 13 years’ development. However, regarding e-transactions, the effective protection of intellectual property rights and the reinforced supervision over e-traders are still a hard nut to crack not only for the Chinese business executives, but also for the Chinese law enforcement departments and competent business administration authorities.

REFERENCES


