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LEADER OF THE PACK: WHAT MAKES THE ALIBABA GROUP SO SUCCESSFUL?

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IDEAS IN ACTION

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The 'people's platform' sells more than eBay and Amazon combined

Chinese e-commerce website Alibaba has had a transformative effect on the lives of many of its users.

Alibaba Group, which matches buyers with sellers in the same way as eBay, has grown into an internet behemoth. Founded in 1999 by Jack Ma, it has a market capitalisation of US\$233 billion on the New York Stock Exchange and had sales of more than 100 billion Chinese yuan (\$19.5 billion) in its most recent financial year.

The company's websites facilitate business-to-business sales, business-to-consumer sales and consumer-to-consumer sales and sell more than US e-commerce giants eBay and Amazon combined.

As impressive as those numbers are, for many Chinese Alibaba has meant something different – a way out of poverty and into business ownership.

Many rural communities have started using Alibaba's consumer and small business portal, known as Taobao, to start their own small enterprises. It has led to the phenomenon known as the "Taobao village" – largely agrarian communities transformed thanks to new job opportunities created by the site.

"We hear stories of empowerment about how 71-year-old grandfathers no longer need to plough the fields. They could be sitting behind a laptop that the whole village pitched in and bought for

him to sell produce from the village," says **Felix Tan**, a lecturer in the school of information systems and technology management at UNSW Business School.

There are between 300 and 400 Taobao villages in China and Tan says the site has brought them a new level of prosperity.

"We went into the villages in 2012 and 2013 and many of the villagers were driving cars and motorcycles, which was brilliant to see," he says.

"Part of the reason why Alibaba is so successful is because it is one platform that is able to connect with the people; it gives normal people the opportunity to participate. It's really about social inclusion and financial participation that Alibaba does extremely well."

COLLECTIVISM AND TRUST

Tan and his fellow researchers – Shan-Ling Pan, a professor of information systems at UNSW Business school, and Barney Tan, a senior lecturer at University of Sydney Business School – outline the reasons for the success of Alibaba in their paper, [Developing a Leading Digital Multi-sided Platform: Examining IT Affordances and Competitive Actions in Alibaba.com](#).

Alibaba is "the people's platform", says Tan.

"People can look up to Alibaba as a platform that they could build to connect with people. People use the platform to connect with the foreign markets. People use the platform to learn about e-commerce. People use the platform to learn about how to trade internationally," he says.

The company achieved this by building collectivism and trust, which is highly important in Asian cultures.

One of the key things the company managed in its early years was to lower the barrier to entry for export markets for small and medium businesses. Instead of having to spend thousands of dollars creating a website and finding distribution channels, these costs were absorbed by the Alibaba platform and the company also provided training to new users.

"It became the de facto platform for the whole of China to be able to trade with foreign partners," says Tan.

That was the first phase of Alibaba's development.

TEACHING ONLINE SKILLS

The next phase from 2004 to 2008 was about pursuing alliances and encouraging participation among firms.

This saw the launch of its business-to-consumer platform, Taobao (which translates as "digging for treasure") and the development of Alipay, an online payment engine that facilitates transactions.

"Being more attuned to the Chinese way of transacting, Alipay became the most popular means of payment on Taobao.com by 2004," the authors write.

"In addition, to cater to the mistrust of online transactions in the Chinese market, Alibaba began negotiations with several financial institutions to provide escrow services through Alipay."

Tan says Alibaba saw that opening e-commerce platforms to farmers and villages would bring a lot of benefits to the users and was a huge new market for the site. But introducing the site to

these villages was no easy matter. In many cases Alibaba had to install the internet and teach computer skills to the villagers.

"In the past, you would have to go to the city to gain all these skills, but Alibaba brought the internet to them. Alibaba brought the logistics channels to those villages," says Tan.

In fact, the company started up what is called the "Taobao university", which provides tuition to anyone wanting to learn how to sell online and run an e-commerce business. Along with teaching how to use the platform, it teaches how to build a good brand and how to use social media. As Tan points out, this is a very different operating model from the Western e-commerce model.

"We started to see fresh produce picked up from the ground and getting to the door of a city person. That sort of thing is possible now because of what Alibaba did for the rural communities," he says.

"It's really about empowerment – empowering the people that have willingly signed on to its Alibaba ecosystem and that's the training. That's building the community and these different communities would obviously give back."

According to Tan, many of the words bandied about in Western business publications – such as co-creation, joint ownership of innovation, autonomy and social enterprise – have actually been achieved by Alibaba during the past seven or eight years.

COMPETING ECOSYSTEMS

Alibaba is what is known as a digital multi-sided platform (DMSP), which the authors define as an IT-enabled commercial network of suppliers, intermediaries and customers that facilitates transactions between these different entities to create value. Amazon and eBay are also DMSPs.

The researchers argue the platform is now the key determinant of success. "Business competition tends to be no longer between firms but between platforms and their ecosystems," they write.

"A successful multi-sided platform is able to connect its customers and its sellers not only in the most economically viable way but also in a way that value is co-created when they are on the platform," says Tan.

"Companies are increasingly going to be competing on the service and the value-add of being on that platform and being a part of that ecosystem – what you get out of being part of an ecosystem."

When a consumer buys an iPhone or an iPad and starts downloading music, movies and apps from the Apple store, they're buying into the Apple ecosystem. Similarly, when they start transacting on Alibaba or eBay, they're buying into those ecosystems.

"For example, Alibaba was originally a business-to-business platform, helping businesses and small-to-medium enterprises connect with one another. Taobao is a business-to-consumer platform. It's not really about Taobao versus eBay or a subsidiary under eBay anymore. It's about that whole platform and ecosystem competing with one another," says Tan.

The next stage in Alibaba's growth is international expansion and it has plans to increase its 423 million customers to two billion by 2036. The company said last month it would open an office in Melbourne.

"It is one of those players out there, same as eBay, same as Amazon, rather than being purely just a China phenomenon," says Tan.