

VODC Mini case study

Alibaba Group

Sebastian Hoffmann
Faculty of Science
University of Amsterdam

Abstract. In this paper a mini use case study on Alibaba Group is conducted, which will illustrate the change process according to the adaptive cycle.

Keywords. Alibaba, Case study, Adaptive cycle

Introduction

In the first chapter I am going to introduce Alibaba Group and its' short history. The second chapter is about challenges that Alibaba faced in the past as well as current challenges the company is facing. Lastly, in the third chapter I am going to apply the adaptive cycle of change model and their characteristics to Alibaba to show how the theoretic model can be mapped to a practical use case.

1. About Alibaba Group

Alibaba Group is China's biggest and at the same time the world's fastest growing e-commerce company, which makes it one of the most valuable tech companies worldwide. In 2013 Alibaba hosted 248 billion USD of online shopping transactions, which is more than eBay and Amazon combined. In 2014 the company raised 25 billion USD from its IPO [45]. Alibaba Group's business mainly comes from three platforms: *Taobao*, which is the Chinese version of eBay and China's biggest shopping site. *Alibaba.com* is a platform that connects Chinese exporters with global customers. And there is *Tmall*, an online sales website focusing on branded goods for China's rising middle-class. On top of that there is also *Alipay*, an ambitious Paypal-like payment platform, as well as considerable stakes in other companies such as *Sina Weibo*, China's micro blogging network, or *Youku*, which is the Chinese equivalent of YouTube [8].

Alibaba Group was founded in 1999 by 18 people, led by Jack Ma in Hangzhou, China. Starting small as a website helping small entrepreneurs and exporters to sell internationally, the company has become a global leader in online and mobile commerce. Besides the core businesses as for instance online marketplace, it also operates in cloud-based computing as well as network services and mobile [2]. Currently, Alibaba Group has 307 million active buyers and had total revenue of 16.8 billion CNY in the third quarter 2014, which equals 2.18 billion EUR. [1].

2. Challenges

2.1. The early years

In the early years, Alibaba struggled being efficient and making profit. One reason was the existing business model, meaning that the platform in that time allowed free membership and Alibaba was not able to generate money. Another reason was the internet crisis in 2002. Alibaba expanded too fast and during the dot-com bubble phase, the company only had enough money to survive for another 18 months. Alibaba changed their business model as they developed a product for Chinese exporters to meet buyers from the United States online. The model change paid off, Alibaba made one million USD in profits in the end of 2002. Since then, Alibaba is very profitable. As the lessons learned from this chapter of Alibaba's history, Jack Ma, the founder, stated that one have make the team having innovation and vision [3].

2.2. Financial crisis and its' aftermaths

When the financial crisis hit the global economy in 2008, import demands of developed countries fell which resulted in a decrease of export, especially in China. Therefore, Chinese small and medium enterprises (*SMEs*) struggled with exporting their goods. As a consequence, Alibaba faced an economical reaction due to their clients' problems [7].

2.3. Current challenges

One major issue of Alibaba is the dissemination of counterfeits, in particular on their *Taobao* platform. Alibaba is present to tackle those fake products and ban them from their marketplace. As a consequence, the company has to make compensation pays and use their resources to reconcile with the buyers [7].

There are even more challenges facing Alibaba right now. In order to keep up with competitors like *Tencent* or *Baidu*, Alibaba tries to invest in new technologies and businesses, inside as well as outside China. One of Alibaba's strategies to compete in the mobile market and they already made investments of companies like *Weibo*, *Tango* or *Momo* [6].

3. Application to the adaptive cycle

The adaptive cycle (Figure 1) is a heuristic model that helps to understand the dynamics of complex systems, for instance human systems such as organizations in this use case.

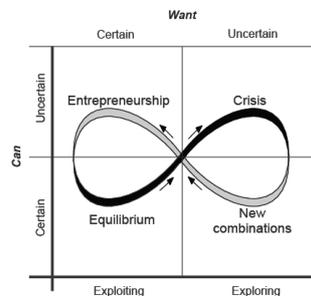


Figure 1. Adaptive cycle (taken from the VODC course slides)

The challenges described in chapter 2 seem proper to be mapped to the different phases of the adaptive cycle. For instance, after the establishment of Alibaba (*Entrepreneurship*), business was going well (*Equilibrium*). A few years later though, the external environment changed due to the dot-com bubble (*Crisis*). Alibaba had to come up with new ideas and solutions (*New combinations*) to overcome this threatening crisis, so they adjusted their business model drastically (*Entrepreneurship*). This innovation allowed competing on the market and starting to be profitable (*Equilibrium*).

The second critical phase occurred due to the financial crisis in 2008 as well as bad management decisions, and can be mapped to the adaptive cycle too. The current challenges that Alibaba is facing are different though. They exist, due to external factors like market situation, competitors or technological and customer behavior change. But Alibaba is not moving to a crisis situation, because the management is pushing forward innovations and making strategic decisions to avoid the danger of moving into this phase in the first place. This prevention strategy can be applied to the three characteristics that influence the adaptive cycles: *Foresight, Communication & Technology*) in order to prevent a crisis in human systems [5].

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