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**Alibaba.com Case Write:  
A Consideration of a the Virtual Service Value Chain**

Abstract: The purely virtual and service providing nature of Alibaba.com's business model requires they modify the traditional value chain model to reflect the customer base and service provided, and that there is no physical product moving through their logistics. Because of this, marketing & sales and customer service must be moved in the model to reflect their presence from before the service can begin through to the end of the transaction. Also, the concepts of inputs, operations, and outputs, need to reflect the service and its virtual nature. As Alibaba.com continues to grow with the Chinese economy, especially the increased internet usage of SMEs, and they monetize their customer base, Alalbab.com will continue its quest to becoming a world leading e-commerce business.

What has made the Chinese e-commerce giant Alibaba.com the world leader in creating and serving business-to-business relationships has been their unique ability to link suppliers and buyers around the world. Coinciding with their value proposition and business ideas has been their timing in the history of the economic growth of China that has served to fuel their incredible growth.

### **Economic Considerations**

The timing for the emergence of Alibaba has perfectly coincided with the rapid growth in several important economic factors.

- China's Internet acceptance and usage by its immense population: From 2002 to 2007, China's Internet penetration rate had risen from 3.6% to 12.3% crossing an important threshold to catch up to countries like the US, Japan, and South Korea where penetration is over 65%.
- Expected surge in e-commerce amongst SMEs, which had risen from 4.5% in 2002 to 28% in 2006, and is estimated to climb to 82% by 2012. SME are Alibaba's focus.
- China's continuation as one of the largest manufactures in the world.
- China's large but steady growth in GDP annually, often over 10%.

### **Strategic Considerations**

Understanding the economic factors that have helped Alibaba be a success is important. However, the additional reasons for their success story lie in their business model and value proposition, especially in their application of a modern virtual supply chain for service providers and market positioning. The service they provide, whether offered in slow economic times or ones of great excitement and optimism, is one that has proven so vital to the business world, that they likely would have found a great deal of success. The remainder

of this case study analysis is to summarize the virtual value and supply chain of Alibaba, as well as their position in the value and supply chains of their customers.

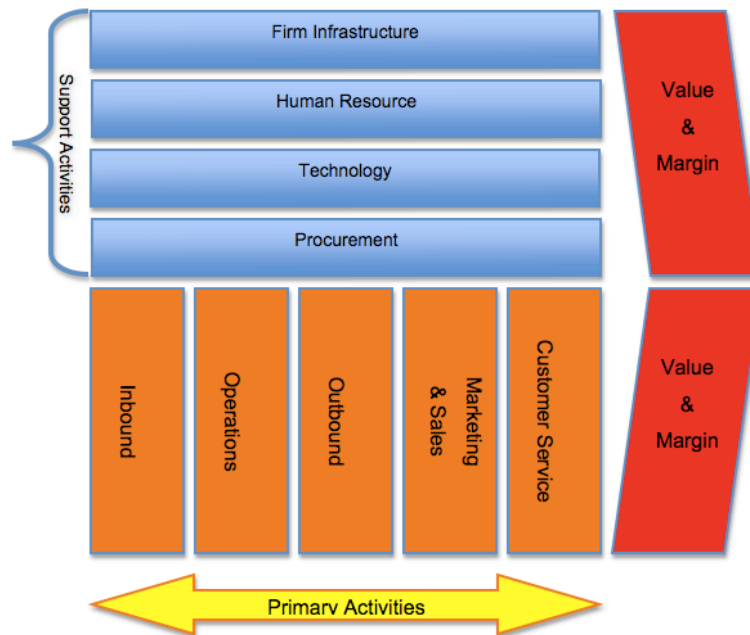
### Business Model

The business model of Alibaba is very simple. It is to help sellers meet buyers. More specifically, it provides an Internet based business-to-business (B2B) platform where sellers (suppliers / manufactures) can meet buyers (outsourcers / wholesalers) on a global scale. The company offers two platforms, one in Chinese for Chinese businesses, and another in English for the other international customers. Customers are both the sellers and the buyers, who are able to post “storefronts” to advertise their products or needs. Alibaba offers several services to aid the e-commerce, some of which are free and come with the basic account, and others must be paid for. Income is primarily generated from suppliers who purchased services to be listed on the site, such as priority placement in industry listings and searches. By June of 2007, Alibaba had over 19.8 million registered users, with 16.6 within its Chinese marketplace. 219,098 of these 19.8 users were paying members.

### Value Propositions, Value Chains, and Supply Chains of Alibaba

The operations of Alibaba can best be understood through an analysis of its value chain, which provides a framework for its supply chain. Although most of Alibaba’s customers use a traditional supply chain for generating value for their customers because they are dealing in physical product, Alibaba’s model is a modified one reflective of their entirely virtual service nature. Traditionally, the primary activities of a company included inbound logistics or receiving supplies, manufacturing the product, and shipping it out. Once the product is ready, the marketing and sales team sells the product to customers and customer service works to ensure the satisfaction of the customer. Each one of these steps increases the

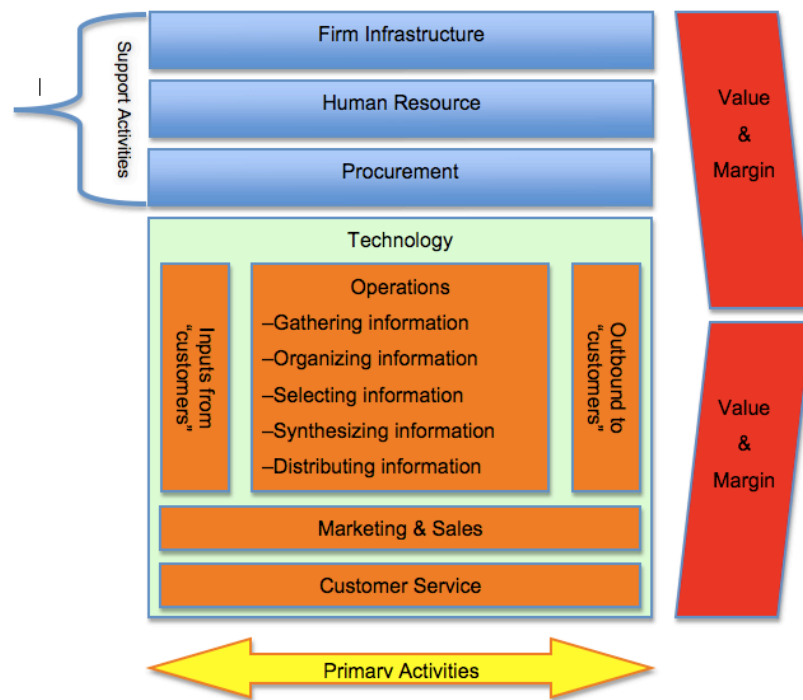
value of the final product, from simply being a mix of supplies to a happy customer whose needs had been met.



With the emergence of virtual service companies, the model has a need for change to incorporate the different nature and timing of value adding procedures. The very first step to creating value for these companies is to have customers from with to generate value with and for. It is true that value is relative to the user regardless of whether the proposition includes a physical product, only an intangible service, or a combination of both. The value proposition of virtual service companies, such as Alibaba, however, is that they could never make an offering without an initial customer to serve and give value to. In dealing with models that involve the production of physical products, such as a car, a car can still be manufactured without a customer, and at least have value to the manufacturer. Without first having a customer, Alibaba has no platform for which to add value and offer value to other customers.

In light of this, the following model is proposed to incorporate the virtual value and supply chain. For Alibaba, technology has incorporated operations on an expanded scale.

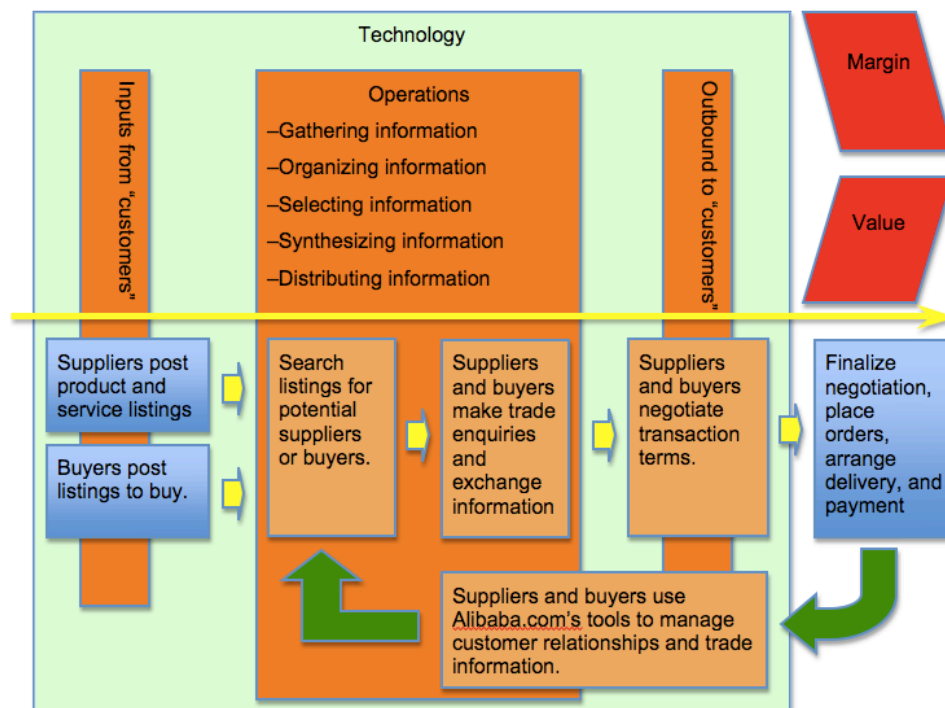
Technology for Alibaba is more than a way to work more effectively and add a few new value-added services; it is fundamental for their business model to generate their value and revenues. Because the entire value proposition is built upon the customers, marketing & sales and customer service span the whole time of the value generating operations.



The three operational steps are then the inputs, operation of information, and outputs.<sup>i</sup> The inputs are the customers who join the service looking for a matching company for their supply chain needs. The operations of the website manipulate the information and generate business connections the customers are using Alibaba for. These operations steps, done through their technology, include gathering, organizing, selecting, synthesizing, and distributing information.<sup>ii</sup> Outbound for Aliaba is when a supplier and a buyer have formed a relationship and leave Alibaba to finalize their transaction. Of important note, the inputs and outputs are the same: the customers. This is different than the operations of a manufacturing supply chain because supplies are the inputs and a finished product is the output. For Alibaba, the service uses the information from the inputs to generate value for them.

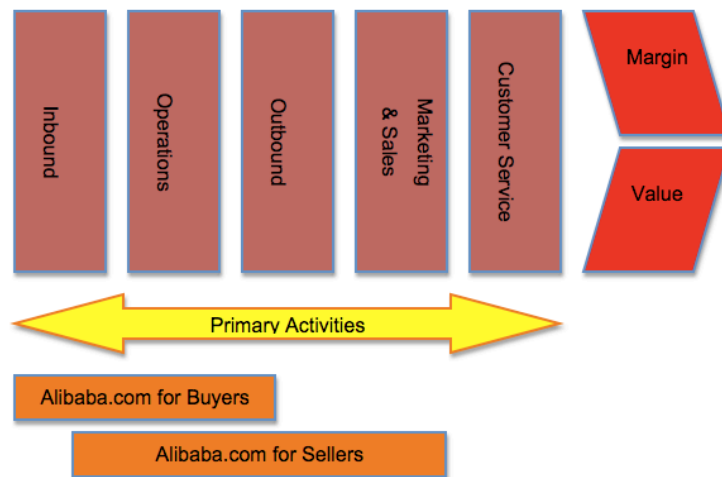
To analyze this model closer, the typical trading process on the Alibaba marketplace is entered into the model.<sup>iii</sup> Together, the two models show the value and supply chain of the company from both the company’s strategic point of view, and their functional point of view, which is most often seen by their customers. As stated by Alibaba, the workflow includes:

1. Suppliers and buyers post their listings, matching the inputs from the company’s strategic perspective.
2. Listings are searched, contacts are made, and information is exchanged between the suppliers and buyers. This will often include product specifications and capabilities. This corresponds to the information manipulation the company’s servers and software use to generate the value for the customers.
3. Customers then negotiate with each other, which is the “outbound” part of the workflow.
4. All of the communications for suppliers and buyers is enabled through tools within Alibaba’s software.



## Alibaba's Role in a Customer's Supply Chain

The result of this supply chain is the value generated by each of its steps. To better understand the value generated, Alibaba's role in the supply chain's of their customers must also be briefly analyzed.



The traditional value chain is again displayed, as the vast majority of Alibaba's customers are on either the inbound or outbound side of the manufacturing process. For buyers, Alibaba's role in their supply chain is connecting with suppliers who deliver a product. The buyer's company then processes their purchase according to their needs, markets it, and services the customer. For Sellers, Alibaba shifts to the outbound and marketing aspects of a supply / value chain. For sellers, marketing & sales is included because for many companies, their top method of marketing is their presence on Alibaba.

## The Future

With Alibaba's business model and value chains, the future strategy of the company includes strengthening and securing their supply chain to increase their substantial market share, increase profits, and hold off competitors. Many of these planned strategies will happen through various marketing and customer service initiatives, such as targeting marketing to increase the customer base, continuously adding tools and features to the

software, monetizing a user base that has been receiving many free services for years, and expanding their service platform from trading to customer relationship management. As Alibaba expands out of China, it must face fierce competition from Global Source and niche B2B service providers. If they can expand while the competition threatens to move onto Alibab's home turf, their future looks very bright.

## Sources

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<sup>i</sup> "Virtual Value Chain". [http://en.wikipedia.org/wiki/Virtual\\_Value\\_Chain](http://en.wikipedia.org/wiki/Virtual_Value_Chain). Retrieved Oct 29, 2009.

<sup>ii</sup> "Rayport, Jeffrey F., and John J. Sviokla. (1995). Harvard Business Review, Nov.-Dec. p. 75-85, [www.saet.cs.depaul.edu/4March2005a.ppt](http://www.saet.cs.depaul.edu/4March2005a.ppt). Retrieved Oct 29, 2009.

<sup>iii</sup> "Exhibit 8: Typical Trading Process on the Alibaba.com marketplace". Asia Case Research Centre. The University of Hong Kong. "Alibaba.com". 2008.