

Does Alibaba limit Chinese Small and Medium Enterprises or enrich them?

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The multi-branch wide operating Alibaba e-commerce group is a system of platforms. It plays a very important role in driving significant business development for small enterprises (SME) in China. Platforms enables the Chinese smaller firms to enlarge their sales channels, create opportunities, logistical and product service with a relevant lower cost. Challenges are the gatekeeper role of a dominant company and the strong internal competition of the SMEs within the platforms.

American Television Financial Media, CNBC, specially reported Alibaba e-Commerce Group and the founder, Jack (Yun) Ma in November 2017 at their Report Section of "the Brave ones" [1]. It said: it is hard to introduce how big the Chinese company, which was founded in 1999, is in a few words. Anyway it probably can be best explained with the figures: 200 million people are purchasing online on Alibaba in every day; 550 billion dollars were traded on the platform in the fiscal year of 2016 and Alibaba Group reported nearly 23 billion dollars of its annual revenue. Investors have raised their business growth forecast to 49 percent from 45 percent in 2018; it has successfully raised 25 billion dollars from the New York Stock Exchange (NYSE) in 2014, which was a record in the history of NYSE.

Nearly half of the registered companies on the Alibaba platforms are small or medium enterprises (SMEs). After over 19 years of growth it is interesting to investigate what is the real relationship between SMEs and Alibaba? Does Alibaba limit and destroy or enrich them? In this article, we first look at Alibaba and its platforms, SMEs in Alibaba's platforms, and then discuss the challenges of Chinese SMEs work with Taobao and Tmall. It suggested that some changes are needed to encourage innovation and development fair competition.

Overview of Alibaba and its platforms

Alibaba is known for its e-commerce platforms, which accounted for 72 percent of the total revenues of Alibaba group in 2017. To

gain an understanding of the basis Alibaba's significance in the Chinese market we evaluate all platforms and their relationships.

The platforms [6] can be grouped into four broad categories: core commerce (Table 1); digital media & entertainment (Table 2); innovation initiatives (Table 3); local services and enabling functions of commerce (Table 4). For each category, we review and summarizes the platforms in terms of platform overview, revenue model, key metrics, links with other Alibaba platforms and outsides, as well as competitors. Further details on the platforms can be found in [6].

2. SMEs on Alibaba platforms

According to the Chinese State Council (see Figure 2) in 2017 there were 42 million SMEs. These SMEs account for more than 99 percent of the total number of enterprises. Their industrial output value, realized profits, taxes and exports account for 60 percent, 40 percent and 60 percent respectively; they provide more than 75 percent of urban employment [3, 4].

Alibaba has always focused on the SME businesses or enterprises and individual entrepreneurs. According to the "2017 China SME B2B E-commerce Development Report" the number of third-party e-commerce platforms used by SMEs in China in 2017 was 16.5 million, 34 percent of all SMEs.

In terms of historical statistics, Alibaba B2B's target customer positioning on SMEs is very accurate and successful; and as a complementary, the individual entrepreneurs are the



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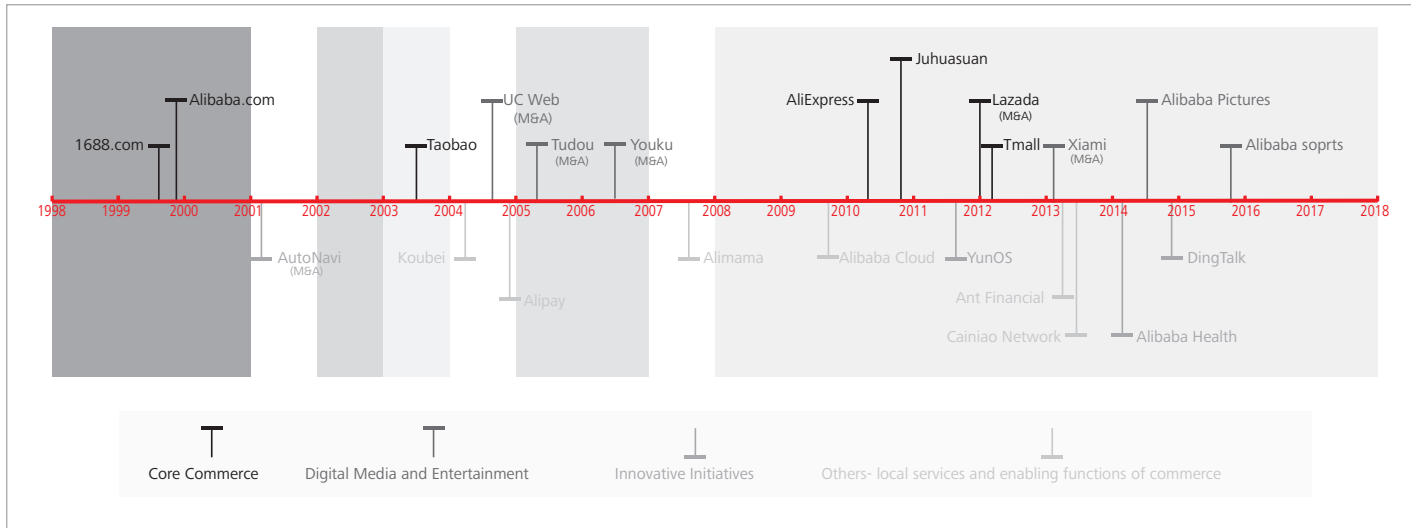


Figure 1: Alibaba Platform Timeline.

target customers of C2C Taobao, one of the most profitable platforms of Alibaba Group. By the end of 2017, there were 9.4 million Taobao stores and more than one billion commodities for sale. In 2017, on the "October 10 Purchasing Festival" (Double Ten Day), Alibaba turnover reached RMB 168.2 billion (Euro 21.2 billion) within one day. In short, Taobao reduces entry barriers digitally, provides Chinese SMBs/SMEs with massive opportunities for trading, and creation of instant self-employment.

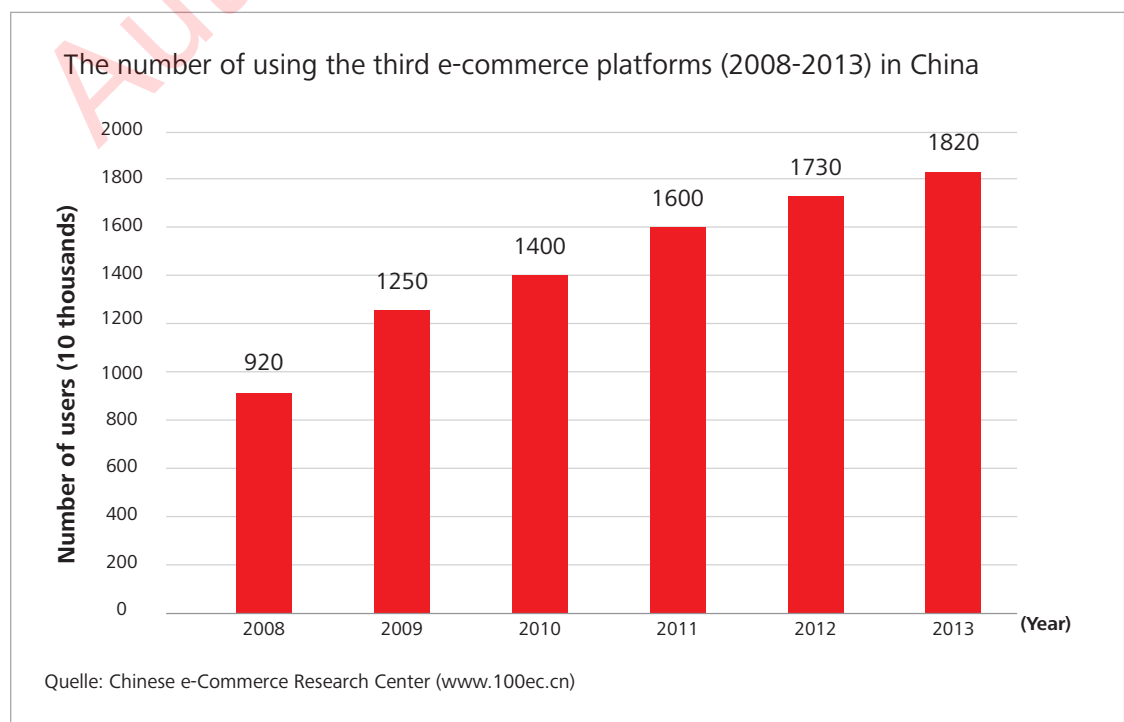
3. Challenges for SMBs/SMEs on Alibaba

The rapid growth of Alibaba has changed the way business is done in China. These changes also bring challenges to SMEs and require the existing systems of regulation and governance is completely overhauled in order to respond to the new market realities.

3.1 Sustainability in business development

Generally, most SMEs, when using the e-commerce platform for marketing, mainly pay attention to the page views and sales conversion.

Figure 2: Number of SMEs Using the Third E-Commerce Platforms.



Consequently they might ignore brand building and business operational effectiveness. Because better sales largely depends on page views on the webpages of the e-commerce websites, more advertisement is needed accordingly via various media. This advertisement investment competes directly with the available budget for operation and production. Especially for the SMEs, the limited resources need to be balanced between e-commerce promotion, customer service etc. From short-term view, the most of Chinese SMEs will depend on Alibaba's e-commerce platform to realize their sales; however the very high levels of competition on the platform limit the sustainability of such decision due to less attention and focus of the high level management on production innovation design, production and even the customer service.

3.2 Governance of e-Commerce

In commercial activities, competition itself is the important part of the growth process for SMEs. However, the extremely high levels of competition among SMEs as recently occurring in China has created a seriously challenging situation that can create disorder and inefficiency. Therefore, this problem will not only affect few of the SMEs, but it involves a large number of enterprises. The e-commerce platforms contain supervision loopholes that lead to SMEs on such platforms being particularly prone to errors in product quality, after sales service, etc. For example, most B2C retailers choose a third party logistics distribution system by outsourcing the services. As a consequence final stage delivery is dominated by small couriers contracted for individual deliveries under high levels of competition. As a consequence the transport process has increased risk and variable, unpredictable, service quality in B2C environment.

3.3 Customer relationship management

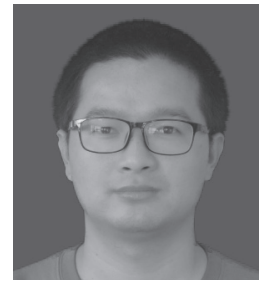
The reduced attention to customer relationships in favor of page views and conversion as lead to a situation where most SMEs cannot effectively analyze the customers purchasing behaviors based on sales data. Overall this results in a rough management other than a meticulous management. In the context of large data generated in e-commerce platforms, the ability to use this large data effectively to carry out the accurate marketing has become the key to the success for the SMEs. Unfortunately, the SMEs themselves normally lack of the experienced engineers and funds to analyze and use the large data. In contrast, they

have to rely on the third e-commerce platform. Due to lacking the analysis of the individuation and diversification of their consumer, the SMEs hardly understand the characteristics of consumers; furthermore, it is difficult to carry out refined personalized marketing to make a great success in business. In addition, the reliance on a standard platform reduces the distinction from other SMEs that have access to the same platform.

4. Conclusion

Evidently Alibaba e-commerce group has played a very important role in driving significant business development for SMEs in China. However, everything has features of pros and cons. Too rely on or too much attention to e-commerce platform, the resources of the SMEs will lead to the investment in e-commerce and then fail to make a sound balance in product innovation design, production process improvement, and even in service enforcement. When the worst cases happen, it may lead to blind sales if SMEs completely rely on the third e-commerce platform but it lacks of a powerful supervision and regulation, or lacking of a reliable and trustable data analysis mechanism.

Alibaba partially dominates the most of Chinese SMEs, which leads to SMEs being overly dependent on Alibaba where they become extremely vulnerable to changes in the platform. The advanced features are needed, but reliance on Alibaba instead of own capabilities greatly increases risk. This also gives floor to an advice. The recommendation is to develop larger companies that can work more independently. The system is open for this development. ■



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Kurz und bündig

Jedes zweite Unternehmen in China, das von der Alibaba Plattform angeworben wurde, erhält die Chance, sich auf dem internationalen Markt zu etablieren. Alibaba hat mehr als 20 Sub-Plattformen in den unterschiedlichsten Branchen wie der Automobilindustrie oder der Gesundheitsbranche. Jede dieser Plattformen verfügt dabei über verschiedene Umsatzmodelle. Alibaba ist auf dem Weg zu einem globalen Verkaufskanal für alle Branchen und Sektoren in China zu werden. Einerseits ermöglicht die Plattform das Wachstum kleiner Unternehmen, andererseits besteht dabei die Gefahr, dass eigene Markteinführungsstrategien dadurch vernachlässigt werden.



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