

Advanced Logistics Performance Measures of Alibaba.com on E-commerce

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Abstract - Alibaba.com is considered to be one of the most well-known B2B & C2C e-commerce companies in China in recent years. This paper discussed 3 main flows in the model of Alibaba.com business which is information flow, cash flow and goods flow. Both information flow and cash flow are mature process of Alibaba.com operations. However, Alibaba.com still has space to improve in the goods flow area. In this paper, we will seek some solutions to improve the weakness in the logistics of Alibaba.com operations and recommend the solution about this problem.

Index Terms - Alibaba.com, E-commerce, Logistics, SWOT analysis

1. Introduction

In recent years, as a benefit from the rising economy of China, the logistics industry has obtained great opportunity to develop extensively. Especially in the recent decades, the number of third party logistics service providers has been increasing greatly. Through the formulation of various internet business models such as consumer to consumer (C2C), business to consumer (B2C) and business to business (B2B), the e-commerce has already taken a great share of market from the real business world.

As the e-market leader in China, Alibaba provides an electronic market place to connect both suppliers and buyers with small and medium sizes in China and around the world. In this paper, we will discuss the Value Creation of Alibaba.com Business Model. Then study on Alibaba entering logistics industry by using the method of SWOT Analysis.

2. Value Creation of Alibaba.com Business Model

Fig.1 illustrates Alibaba's work process model. In fact, it points out how Alibaba make money from its business model. We will discuss on information flow, cash flow and product flow. The key point will be in the product flow which is the shortage of Alibaba, further more it is shortage of Chinese logistics as well.

A. Information Flow

1) Advertisement

There are more than 45mil persons opening the Alibaba website per month, so that advertisement is one of the main revenue for the Alibaba.

2) Member Fee

Although the common members are free to registry in Alibaba, if you want to get details information or do the exact research, you should become its VIP members.

3) Search Engines

It is similar like Google. If you want the information of your company to display on the top of the website, you should pay more to the Alibaba.

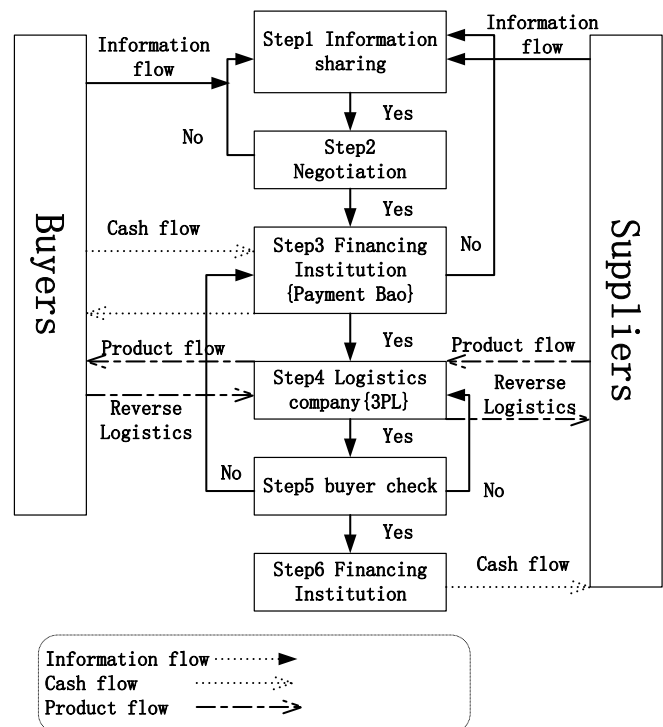


Fig. 1 Alibaba's work process model.

B. Cash Flow

Alibaba developed its own payment system which called as Payment Bao. For Alibaba customers, it is free payment system which is intertwined with the delivery phase and controls the financing risk for buyers. Money is held by Payment Bao before the customers accept the products; otherwise the Payment Bao will return the money to the buyers.

In the process, the buyers pay the money when they confirm the deal, while the sellers only receive the money, when their customers accept the products. It will take at least 3 days for the whole process. Now the total deal volume of Alibaba is 10 trillion RMB per year. We take an assumption that the Payment Bao will hold 3 days deal volume cash daily, the number is 82 billion RMB. So that even save this money in

the bank by 3% interest, it could earn 2.46 billion interests per year.

C. Goods Flow

We found in some reports about the shortage of Alibaba, such as too long delivery time, hardly return the cargo, increasing delivery fee. Obviously, all of these are related the product flow process. However at present, the product flow of Alibaba is outsourcing to third party logistics companies, so that it is impossible to control the product flow. This paper focuses on these problems and tries to make some improvements.

1) The product damage—how to control the delivery service quality?

2) Delivery delay—How to improve the delivery productivity?

3) The bargain power— how to face the Logistics companies increase the delivery fee together?

4) Reverse logistics--How to deal with the misdelivery products or poor quality products which are returned by the buyers?

3. Study on Alibaba entering logistics Industry

From the above analysis, Alibaba is the absolute strength in the e-commerce area; however logistics become the bottle neck of the development of Alibaba. Creating its own logistics network is the next challenge of Alibaba. As such, we would like to make a study on Alibaba entering logistics industry.

A. SWOT analysis

We attempt to use SWOT analysis as the business strategies method to evaluate the Strengths, Weaknesses, Opportunities, and Threats which will be involved in Alibaba.com creating its own logistics venture.

TABLE I SWOT analysis

	Helpful To achieving the objective	Harmful To achieving the objective
Internal origin (attributes of the organization)	Strengths Well-known Brand Developed platform One stop services Stronger financial support	Weakness No experience in the Logistics High cost at the beginning
External origin (attributes of the environment)	Opportunities The fast development of the e-commerce There are no mature 3PL companies in China The government policy	Threats Fierce competition Cannot focus on the core competencies Logistics is a low-margin market

Strengths

1) Well-known Brand

Alibaba is a well-known brand not only in China, but also in the worldwide. It owns a good reputation in the e-commerce market, so it will attract a lot of customers in a short time especially the youth. The problem is whether it could provide good service to the customers at beginning. Otherwise it neither keeps a long term relationship with the customers, nor may damage the current reputation.

2) Developed platform

Unlike other new logistics companies, Alibaba can use developed trading platform to develop logistics business directly. One of the key problems of the logistics companies is to search customers. On the opposite, this is not a problem to Alibaba. In fact, goods logistics is the downstream of the good trading, so all the customers' information and demand are already in the Alibaba database. Alibaba can promote their logistics service in their platform directly.

3) One stop services

Information flow, capital flow and goods flow are the three key e-commerce transactions based on trading platform. Now Alibaba is successful in the information flow area, while Alipay has guaranteed the capital flow. If Alibaba creates its own logistics network, it could provide one stop services

which will improve customer satisfaction. On the other hand, due to Alibaba.com owns developed platform, it could predict the goods demand and supply which is the key information for the logistics business.

4) Stronger financial support

Establishing a new logistics network needs a lot of capital at the beginning. We can see from Alibaba 2010 Cash Flow Statement, it has enough cash to support the investment. On the other hand, Alibaba is stock list company, so it can be financing in the stock market as well.

Weaknesses

1) No experience in the Logistics

Creating professional logistics company needs a lot of the experience experts and teams. For Alibaba, this is a total new area. How to create the new team? Additionally, how to match the logistics service with current trading platform is a technology problem. All of these are new challenges for Alibaba.

2) High cost at the beginning

Logistics industry is a capital-intensive business. The expert has been estimated that the minimal cost is 20bil to 30bil RMB to establish the new network in a city, so that if you want to create network in 30 cities, the cost will be more than 900bil RMB. This is a huge investment.

Opportunities

1) The fast development of the e-commerce

The global economy is in the recession period, but comparing with the traditional trading method, the SME companies would like to explore new business opportunities by e-commerce which are more nimble in running cost. With the cost pressure in the current market, e-commerce is the best way to demonstrate cost-efficiency.

2) There are no mature 3PL companies in China

Comparing with 9% ~ 10% of the developed countries external logistics cost and the GDP ratio, China external logistics cost is up to 20 %, so China height puts up close to one times of developed country. This indicates that there is a very big improvement space is the logistics business in China. Now the Chinese 3PL companies are much more focus on high profit instead of cost control. That means customers have to pay much for the goods logistics. If Alibaba could consider how to reduce the logistics cost, it must win in this competition.

3) The government policy

The Chinese government is pay attention to the logistics and e-commerce business, and has support policies for them. Logistics companies could enjoy tax rebate is some area.

Threats

1) Fierce competition

The competition in the logistics market is very fierce. Not

only the domestic's logistics companies but also a lot of the famous international logistics companies are focus on the China logistics market. How to create the competitive advantage is a question mark.

2) Can't focus on the core competencies

It will invest a lot of time and money in the new business, as such how to balance the limited source in the current business with the logistics one?

3) Logistics is a low-margin market

Logistics is a low-margin business in China. Now the profit margin of 43% of the logistics company is below 5%, while the enterprises which profit margin more than 10% accounts for only 24.8% of the total number of logistics companies.

B. TOWS Matrix

Once we have made the basic SWOT analysis, we would like to attributes into TOWS Matrix which could form business strategies to the logistics venture of Alibaba.

TOWS will ask and answer the following questions:

- 1) How to make the most of Alibaba's strengths most efficiently? (S-O)
- 2) How do Alibaba reduce the effects of its weaknesses? (S-T)
- 3) What is the best way to capitalize on Alibaba's opportunities? (W-O)
- 4) How do Alibaba avoid or minimize the threats? (W-T)

TABLE I TOWS Matrix

	S	W
O	S-O(Maxi-Maxi Strategies) 1)Utilization of the current well-known brand and developed platform to launch logistics business 2) Establish the network in the city which has a large e-commerce customers and good government policy support.	W-O(Mini-Maxi Strategies) 1) Acquisition or Joint Venture the current logistics companies which has developed network but lock of capital. (Minimize the investment to get the experience team.)
T	S-T (Maxi-Mini Strategies) 1) Keep the competitive advantage in the e-commerce business. It is always the core business of the Alibaba 2) External Financial risk control so that in case joint venture or acquisition fail, financially it will not affect the major E-commerce operation for Alibaba.com	W-T(Mini-Mini Strategies) 1) Employ the logistics talent from international market so that risk to newly set-up logistic company can be reduced with management from experienced employee. 2) Internal Cost control in the investment, as in if Alibaba.com is setting up its own logistic network, accounts and budgets can be shared and balanced out during the initial phase.

4. Conclusions

Among the value creation of Alibaba.com business, it has been identified that the bottleneck lies on the goods flow of the company. As previously but engaging in 3P logistics, problems such as late deliveries, un-retained goods and various other issues arises. This is extremely critical to Alibaba.com as they are unable to be in control of the logistics flow to and from the customers, which greatly affects their operation and meet the value to the end customers. Such evidence has been backed up by the surveys done on various companies who did not engage

with 3P logistics and will rather handle on such service within the company for better control of their goods.

In this paper, we made the SWOT analysis of Alibaba.com creating its own logistics venture, and proposed business strategies by TOWS Matrix.

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