



SWOT Analysis and Strategic Choice of Alibaba Group's Acquisition of Lazada

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Abstract. Globalization has fueled the development of the Internet, thus enabling the rapid development of e-commerce industry. As an emerging industry, its development has greatly changed the way people consume and brought convenience to trade. At the beginning of the 21st century, transnational mergers and acquisitions set off a new wave. The injection of foreign capital and technology, so that the development of domestic e-commerce industry on a higher level. Under the background of “One Belt and One Road”, the “going out” strategy implemented by the state has encouraged domestic enterprises to look to the international market, and domestic e-commerce enterprises have gradually begun to enter the international arena. From the initial export to the acquisition of foreign enterprises, to avoid trade barriers and control the international market, in this boom of e-commerce mergers and acquisitions, Alibaba Group's acquisition of Lazada is a very successful example. The research topic of this paper is to study the advantages and opportunities Alibaba has before the merger, as well as the disadvantages and threats it faces, so as to think that Alibaba should adopt specific strategies after the merger of Lazada. This paper will utilize the research method SWOT. SWOT analysis mainly includes internal and external environmental factors, S (Strengths) and W (weaknesses) are internal factors, O (opportunities) and T (threats) are external factors. The article specifically analyzes the advantages, disadvantages, opportunities and threats of Alibaba before the acquisition of Lazada, which will help Alibaba to recognize its strengths and weaknesses, and lay a foundation for Alibaba to successfully open the Southeast Asian market. The final research conclusion and result is that the advantages and opportunities of Alibaba's acquisition of Lazada are obviously greater than the disadvantages and threats. Therefore, Alibaba's acquisition of Lazada is a wise choice.

Keywords: M&A · SWOT analysis · Alibaba · strengths and weaknesses · strategy

1 Introduction

On April 12, 2016, Alibaba Group stated that it would spend \$1 billion to purchase the majority of the shares of Lazada, including 500 million new shares and some shares held by investors. This announcement signaled the beginning of Alibaba Group's takeover of Lazada. Along with giving Alibaba access to international markets, the investment in

Lazada also enables Southeast Asian market expansion for retailers using Alibaba's platforms. The fact that Alibaba increased its share in Lazada from % to 83% in July of this year and announced that it will invest another \$1 billion there shows just how successful its acquisition of Lazada was for Alibaba. Alibaba's international retail revenue in the quarter of April 2016, when it purchased Lazada, was \$168 million, or 4% of total sales, increasing by 123% over the same period in 2015. Alibaba continues to invest 1 billion US dollars to strengthen its controlling stake in Lazada because its revenue climbed by 47.57 percent to 23.469 billion US dollars in the year following the acquisition [1]. Research will focus on SWOT analysis before and after M&A of Alibaba Group by using SWOT analysis. SWOT analysis mainly includes internal and external environmental factors, S (Strengths) and W (weaknesses) are internal factors, O (opportunities) and T (threats) are external factors. From this case, it can also be seen that Internet enterprises are developing rapidly and the market competition is fierce at present. While they have advantages and opportunities, they also face disadvantages and threats. Therefore, on the basis of analysis, the paper puts forward the suggestion of Alibaba's acquisition of Lazada, which can provide reference for other Internet industries.

2 SWOT Analysis of Alibaba's Acquisition of Lazada

According to CNBN, on April 12, 2016, Alibaba Group announced the acquisition of controlling shares of Southeast Asian Online Retailer Lazada for \$1 billion. It includes 500 million new shares and some that are in the possession of investors, signaling the start of Alibaba Group's acquisition of Lazada [1].

With Alibaba's investment in Lazada, it gains access to international markets as well as the ability for Southeast Asian markets to be further penetrated by its platform's merchants. Alibaba's acquisition of Lazada has clearly benefited it as seen by its announcement in July 2016 to spend \$1 billion in the company once more and an increase in its ownership from 51% to 83% [1].

In the quarter of April 2016 when It acquired Lazada, Alibaba's international retail revenue was \$168 million, or 4% of total revenue, up 123% from the same period in 2015. Alibaba's revenue rose 47.57 percent to \$23.469 billion in the year after the acquisition, which helps explain why Alibaba continues to invest \$1 billion to increase its stake in Lazada [1].

Internal and external environmental aspects are primarily considered in a SWOT analysis; internal factors include S (strengths), W (weaknesses), and external factors include O (opportunities), and T (threats). The article specifically analyzes the advantages, disadvantages, opportunities and threats of Alibaba before the acquisition of Lazada, which will help Alibaba to recognize its strengths and weaknesses, and lay a foundation for Alibaba to successfully open the Southeast Asian market.

2.1 Strength Analysis

2.1.1 Advanced Technology

Technology is crucial for businesses. The person who has mastered the fundamental technique may speak. The fact that Apple still controls its core technology despite

outsourcing the majority of its operations is the reason why no other firm has managed to overtake it. With the introduction of foreign cutting-edge technology and its own transformation, Alibaba has recently upped its technical investment and built its own incredibly potent cloud computing system. For instance, on China's "Double 11 day" in 2015, peak Alipay payment volume hit 2.85 million transactions per minute, and order formation capacity peaked at 80,000 transactions per second [2].

2.1.2 Management Synergy

The difference of management efficiency between enterprises is the main driving force of enterprise MERGER and acquisition. Alibaba not only has higher management efficiency than Lazada, but also has surplus management resources. Through M&A, on the one hand, Lazada's management efficiency can be improved to Alibaba's level, and on the other hand, Alibaba's management ability can be fully utilized. At the same time, it improves the business performance of enterprises and brings benefits to all countries [2].

2.1.3 High Visibility

Despite being a relatively new player in the e-commerce space, Alibaba soon opened the market with its own advantages. On the one hand, Alibaba has seized a sizable portion of the e-commerce platform shopping market despite the rise of Taobao, Tmall, and other shopping platforms in China. The rapid expansion of sales is another factor contributing to the emergence of "Double 11" activities. On the other hand, Alibaba's IPO in the US gradually elevated it to the global arena and enabled it to expand its market. Its per capita visits are strong, scoring highly as a Business to Business (B2B) platform, reflecting its great popularity. While its Taobao site has received mixed reviews for the quality of its products, sales continue to grow thanks to its wide range of products and low prices [2].

2.2 Weakness Analysis

2.2.1 Size Limits

Alibaba is not an outlier when it comes to the fact that companies usually face limitations during the development process that make it difficult for them to expand their scale. Although Alibaba is now well-known throughout China, its strict business model has cost it money and restricted its expansion. Despite the fact that Alibaba now controls a substantial piece of the domestic market, we are conscious that additional market expansion will be difficult given the intense competition among Alibaba, JD, Vipshop, and other retailers. Some business owners will close their doors since they can't use the current platform to raise trade volume, which will further reduce Alibaba's trading volume. Therefore, its size restriction is a major disadvantage.

2.2.2 High Imitation

Despite having a great marketing strategy, Alibaba's market share is further diminished by the fact that its business model is simple to copy and widely used by small firms. The

demands for the division of labor in an industry will only increase as people's economic status rises and their concepts of consumption evolve, and the Internet industry is no different. Alibaba is weak in many areas due to the many levels of market segmentation, which presents a chance for small businesses to profit. Therefore, the question of how Alibaba can keep its own advantages in this period of combining traditional businesses with online businesses, even if it is replicated by others but cannot be overtaken, has emerged [3].

2.3 Opportunity Analysis

2.3.1 Cash Using Too Quickly

Lazada has long been a favorite of venture capital firms, raising six rounds of funding between November 2012 and December 2014, including \$40 million in the first round and \$250 million in the final round. But the \$700 million in financing was quickly wiped out due to mismanagement, which provided Alibaba with a good opportunity [4].

2.3.2 Advanced Payment System

Alibaba's payment systems, such as Alipay, are convenient and relatively safe, and have solved the long-standing credit problems of both sellers and buyers. At present, Alibaba is further strengthening cooperation with banks and other financial institutions, and its advantages of free online payment and transfer are praised for it. Lazada, as the largest e-commerce platform in Southeast Asia, has a big gap in payment system. Lazada does not have an electronic wallet and has low penetration of credit cards. Despite the introduction of cash on delivery and the promotion of credit card payment, its capital utilization rate is still low. The introduction of Alipay after the merger can not only solve the problem of payment difficulties but also enhance the security of payment.

2.3.3 Strengthen the Market

Alibaba has long had a sizable domestic market share, but since going public, its globalization effort has gained more attention. The worldwide website's B2B division is complemented by the constantly growing AliExpress platform. Except for India, Southeast Asia is currently the most potential emerging market. "Amazon in Southeast Asia" is how Lazada is known. Therefore, engaging in M&A prior to Lazada's entry into China can be considered preventative. At the same time, Alibaba's advantages in online sales can compensate for the lack of online sales on Southeast Asian e-commerce platforms. Alibaba's operations will be more convenient as mobile phone usage rises throughout Southeast Asia. So the acquisition of Lazada will allow it to accelerate its presence in southeast Asia.

2.4 Threat Analysis

2.4.1 Competitors

Alibaba cannot disregard the challenge from rivals despite the fact that it has some advantages in the e-commerce sector. Taobao has a big number of merchants and a

diverse range of products, which causes phony and subpar goods to surface. Competitors will use this feature to intensify their attacks on Alibaba. The self-established logistics infrastructure of Jindong, on the other hand, significantly increases its delivery speed, which also poses a threat to Alibaba. Despite the fact that Alibaba founded the Cainiao Alliance, it is still unable to satisfy the high commercial demand.

2.4.2 Integration Risk

Of course, the financial benefits that a successful merger and acquisition provide to the company are significant, but the integration of the two parties following the merger and acquisition cannot be overlooked. Two nations and regions in China and Southeast Asia are involved in Alibaba's purchase of Lazada. It will be extremely difficult for Alibaba to integrate its business strategy, organizational culture, human resources, finances, and other areas after the acquisition. Southeast Asia is home to six nations in particular where many civilizations converge. How to promote its own corporate ideals while honoring local culture is a significant challenge following Alibaba's acquisition of Lazada [4].

2.4.3 Legal Risk

Cross-border mergers and acquisitions must take legal risk into consideration, so it is important to pay attention to all applicable rules and regulations. Because Chinalco is unfamiliar with pertinent Australian laws and regulations, one of the main reasons it was unable to acquire Rio Tinto in Australia. Southeast Asia is a diverse region with numerous disparate legal systems. Before engaging in M&A, Alibaba must be aware of local laws and regulations and engage in M&A with the intention of abiding by such rules and regulations.

3 M&A Strategy Decision Based on SWOT Analysis

SO-Maxi-Maxi Strategy, WO-Maxi Mini strategy, ST-Maxi Mini strategy and WT-Mini Mini strategy were proposed by Michael Porter, a famous American management scientist, in his book *Competitive Advantage* in 1985. Four different strategic strategies were obtained through SWOT analysis, which helps enterprises to understand external changes and adjust internal strategies at any time [5]. The details are shown in Fig. 1.

Maxi-Maxi approach, SO (growth strategy). Businesses using this strategy frequently have strong internal competitive advantages and external development potential [6]. Growth strategy is a crucial tactical decision in the growth of prosperous businesses. With this method, businesses have excellent internal management, a high scale economy, and a quick pace of market development. Very high coordination. One method of implementing the growth plan is merger and acquisition, which enables businesses to obtain the superior resources of rival businesses and take advantage of the chance to quickly increase scale and market.

WO-Maxi Mini strategy (Transformation strategy). The background of this strategy is that the enterprise is at a disadvantage but there are obvious opportunities outside [6]. The transformation strategy enables enterprises to look for opportunities in other fields. Although enterprises may be temporarily at the end of the industry development



Fig. 1. SWOT analysis matrix for Alibaba's acquisition of Lazada

due to problems such as backward technology and product quality, they have good external opportunities. Enterprises should actively seize the opportunities and make use of market opportunities to turn losses into profits. However, it cannot be ignored that not any enterprise can successfully transform due to the existence of disadvantages, which requires enterprises to have accurate judgment on the market.

ST-Maxi Mini strategy (Diversification strategy). Although this method has certain advantages, it also exposes businesses to external risks [6]. Those that enter a certain industry first typically have evident benefits in the early stages of its development. However, as time passes, threats from possible competitors and replacements, as well as the increasing bargaining power of suppliers and customers, force businesses to expand into new business sectors on the basis of their current operations. In this situation, businesses should fully utilize their own advantages and create diversified tactics to counteract outside threats.

WT-Mini Mini approach (Defensive strategy). This strategy alludes to a plan to mitigate organizational vulnerabilities while avoiding external dangers [5]. An organization is frequently in a disadvantageous position when it must deal with both internal and external dangers. The business should focus on developing its own interests, identifying internal issues, and addressing external challenges in light of its own progress instead of expanding its market at this moment. As a result, businesses should improve internal management and encourage sustainable business growth.

4 The Strategic Choice of Alibaba's Acquisition of Lazada

From the aforementioned analysis of specific strategic decisions, it is clear that while Alibaba's acquisition of Lazada has both benefits and drawbacks, as well as opportunities and threats, overall, Alibaba's benefits and available opportunities will be more obvious after the acquisition of Lazada, allowing it to carry out the so-growth strategy. Taking advantage of chances from outside sources can primarily lead to the following improvements:

4.1 Make Use of Policy Advantages to Achieve Rapid Development

The nation has long placed a high priority on international mergers and acquisitions, and it has opened a number of green channels in the area of international mergers and acquisitions in an effort to help Chinese businesses access foreign markets. Alibaba is also more likely to acquire beneficial resources when social stability and macroeconomic prosperity are present. The number of merchant platforms on Lazada will definitely expand as a result of Alibaba's arrival into Southeast Asia, which will raise demand. Alibaba may take full advantage of this chance to achieve its own quick development.

4.2 Use Payment Methods to Improve the Utilization Rate of Funds

On the one hand, Lazada's lack of standardized payment methods causes payment confusion, which slows down the speed of fund recovery. Alibaba not only offers cutting-edge payment system technology, but cloud computing technology as well, which overcomes limits of distance and location, optimizes resources, and helps users save time. The independently constructed OceanBase database, on the other hand, supports actual Alipay and Yu'eobao transactions, making its financial level reliability reasonably high. By implementing mergers and acquisitions, Alibaba's cutting-edge payment methods might be added to Lazada, improving the cash-to-account ratio and boosting Alibaba's cash flow even more.

4.3 Improve the Operation Mode and Break Through the Scale Limit

According to data, Alibaba's user growth has peaked, making it exceedingly difficult to achieve any additional breakthroughs in the domestic market. The successful acquisition of Lazada is therefore Alibaba's attempt to discover a new route to scale up its business. Alibaba's business is much more successful than Lazada's, despite the fact that their business concepts are comparable. Because of its poor internal management, Lazada's quick consumption of financing resources is evident. The original Lazada can adopt Alibaba's advanced management mode based on the growth plan being implemented, and the original Advanced management mode of Lazada in Europe and America can also impact Alibaba to create the win-win cooperation.

4.4 Introduce International Talents to Achieve Long-Term Development

Acquisitions and mergers frequently give workers from many nations the chance to interact and share knowledge with one another. Alibaba requires international skills to address the management and legal issues that different nations confront if it wants to expand internationally. The majority of the employees at Lazada are European and American and have extensive management experience. Currently, Alibaba is able to continue the route of post-Lazada localization development not only by directly utilizing these sophisticated management abilities but also by adding international talent through mergers and acquisitions.

4.5 Enhance Brand Benefits and Take the Road of Internationalization

Brand effect can play an immeasurable role in the development of enterprises. For example, in 1988, due to the impact of the Asian financial crisis, many enterprises that used commercial paper for financing were hit, but CIMC obtained a financing project worth 8 million DOLLARS with its good brand effect and reputation. It can be seen that higher visibility and better reputation are indispensable for enterprises. Lazada's location in Southeast Asia offers a wide range of potential customers. Alibaba must quickly increase its global market share as the Chinese market gradually becomes saturated. Alibaba, however, finds it difficult to hold a position given the strong footing that Amazon and eBay enjoy in the traditional European and American markets. Although the Southeast Asian market is still in its early stages of development, Alibaba can take advantage of this situation and leverage its considerable popularity to corner the region's market [7].

5 Countermeasures and Suggestions on Alibaba's Acquisition of Lazada

With the rapid development of economic integration, M&A has become the primary choice for more and more enterprises to expand. However, it can be seen from the above analysis that although M&A, especially overseas M&A, has advantages and opportunities, it inevitably brings disadvantages and threats, so how to develop scientific and effective M&A strategy becomes particularly important. For this article, suggestions are put forward from the following aspects.

5.1 Correct Selection of M&A Targets

The selection of target enterprises is the premise of the success of MERGERS and acquisitions. It must be combined with the complementarity of strategies, the relevance of businesses, the compatibility of integration and the matching of tangible assets to intangible assets. Therefore, relevant work must be done before mergers and acquisitions. Alibaba before M&A have fully understand to Lazada, Lazada is southeast Asia's largest shopping platform and product variety, at the same time it is a cross all electric business platform, the association of southeast Asian nations market has a large consumer groups, as well as growing markets overseas, all of which are essential to Alibaba to enter the southeast Asia market. Although Lazada has been in the red for the past few years, its market potential cannot be ignored.

5.2 Strengthening Risk Prevention Investigations

Mergers and acquisitions often inevitably have certain risks, so it is very important to do a good job of investigation before mergers and acquisitions, strengthen the awareness of risk prevention, and do a good job of risk response strategies. Before Alibaba's acquisition of Lazada, it needs to do a good job of investigation, because there are many southeast Asian countries and the laws and customs of each country are different, so it

is necessary to hire professional institutions for planning and negotiation. In addition, Amazon, Lazada's biggest potential rival in Southeast Asia, has a wide range of operations and strong strength. Therefore, Alibaba should make strategic planning before entering Southeast Asia to avoid excessive duplication of business scope.

5.3 Improve Product Innovation Capacity

Innovation is the core competitiveness of enterprises. If product innovation can be carried out in cross-border mergers and acquisitions, enhancing brand value is equal to half of the success. Although Alibaba can introduce its original means of payment and logistics system into Southeast Asia after its acquisition of Lazada, more and more e-commerce platforms are entering Southeast Asia, causing serious market fragmentation in Southeast Asia. Hence, Alibaba must build on its strengths, such as Cainiao handling the "first mile of distribution" in China and the "last mile of distribution" in Southeast Asia, especially in overseas markets led by Singapore. In addition, a comprehensive user service system should be developed to improve user service experience.

6 Conclusion

This paper believes that using SWOT analysis, conduct a systematic and comprehensive analysis and research on the external environment of the enterprise combined with its own actual situation, find out advantages and disadvantages, find market opportunities and existing threats, give full play to advantages, overcome weaknesses, take advantage of opportunities, and resolve threats. Out of the company's own strategic decisions. Alibaba made a great decision in choosing to acquire Lazada since the benefits and prospects clearly outweigh the risks and concerns. Based on the aforementioned research, Alibaba can pursue a growth strategy after the merger and make use of external circumstances to maximize the benefits for both parties. This story also demonstrates the quick growth and intense market competitiveness of today's Internet businesses. Companies face drawbacks and dangers in addition to benefits and opportunities. As a result, the paper suggests that Alibaba buy Lazada on the basis of the analysis, which can provide borrowing for other Internet sectors. In order to attain the objective of sustainable development, the firm itself must be aware of any changes in the external environment and adapt in accordance with those changes.

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