

Alibaba.com

Feasibility Study and Business Plan

M21-A

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1. Introduction

1.1. Alibaba Group

Alibaba (SEHK: 1688) (Chinese: 阿里巴巴; pinyin: ā lǐ bā bā) is a Hangzhou-based e-commerce/e-auction company, specializing in global trading. It was founded in 1999 by Ma Yun (Jack Ma), and operates five e-commerce sub-companies which operate different aspects of trading.

1.2. Business profile

The English-language web site alibaba.com specializes in business-to-business trades, especially for international buyers trying to contact Chinese sellers.

The Chinese-language web site china.alibaba.com focuses on business-to-business trades within China, while www.taobao.com is a consumer-to-consumer trade site for Chinese customers. The Japanese language website "Japan.alibaba.com" is for Japanese customers.

Japan's Softbank was one of the earliest investors in Alibaba. Its founder, Masayoshi Son, invested \$18 million in the company in 2000 and also participated in subsequent rounds of financing.

Alibaba Group



Type	e-commerce
Founded	Hangzhou, China (1999)
Headquarters	6/F Chuangye Mansion, East Software Park, No.99 Huaxing Road, Hangzhou, 310099, China
Key people	Ma Yun (Jack Ma)
Industry	Internet
Employees	4,400 (30 June 2007)
Website	http://www.alibaba.com

1.3. Sub-companies

As of January 2009, the Alibaba Group is made up of 6 sub-companies:

Taobao.com: Online auctions web site for customers.

Alipay: Online payments web site, processing mainly payments within China.

Alisoft: Provider of web services to the Chinese Small and Medium-sized Enterprise marketplace.

Alimama: Online advertising exchange, which allows web publishers and advertisers to trade online advertising inventory.

China Yahoo! : As a powerful portal with excellent searching engine, it provides high-quality basic application services for internet users including email, IM, information services and so on.

Koubei.com: China's largest communities for exchanging basic life information such as that on clothes, food, housing and travel.



2. Business Model

2.1. Revenue Sources

The revenue of Alibaba.com is generally from the advertisements and payment of members. It's free to search the results in the websites, but if the firms want to sell the products through the platform, they have to be the members of Alibaba.com and pay for it. Because the high visibility of Alibaba.com, it also earn lots of profit from the advertisements in its websites.

2.2. Revenue Model

The revenue model of Alibaba.com is advertising based. This advertising based is not only the traditional one, but also includes the payment of members, the webpage prepare for the small and medium-size firms belong to another kind of advertisement for the products.

2.3. Cost Drivers

The cost drivers of Alibaba.com are generally the fixed cost and the semi variable cost. Because of the e-business model, the firm has seldom variable cost such as the material cost. The fixed cost includes the cost of revenue, research & development and operation; it takes about 45% of the total cost. The semi variable cost is the cost for selling such as advertisement and the cost of sells man; it takes about 55% of the total cost.

2.4. Critical Success Factors

2.4.1. Clear Strategy

To be the best e-business website not only in China, but also all over the world is the mission of Alibaba Corporation. The clear strategy is the beginning of the team of Ma Yun and the highest demand of all the team members. The right strategy born with the right period of e-business development in right place of China, that makes the half success of Alibaba.

2.4.2. Effective Execution

The ability of effective execution is the sign of a mature team. CEO Ma Yun, CFO Cai Congxin, CTO Wu Jiong and CPO Guan Mingsheng are all the best members in their own area before join in Alibaba. Their high experience of managing a team and maximum the performance of each employer is the success factor of Alibaba. They refine each activity to be feasible, high effective and high feedback, which make Alibaba to be one of the business deifies.

2.4.3. Special Culture

Without a charismatic culture, a firm can not attract the excellent employers and investors. In the low of Alibaba Corporation, the wage of each employer is just 500 RMB, which is near the lowest

wage in that period. But the team didn't break, even more, it attracts the million dollars earning investor Cai Congxin to join in the team, that's the charismatic culture to help the firm across the obstruction.

3. Five Forces Analysis

3.1. Barriers to Entry

High returns will draw firms. This results in many new entrants, which will effectively decrease profitability. With the development of B2B market and long time high profit of Alibaba.com, There are more and more new websites try to copy the business mode of Alibaba.com. The most common way to entry B2B e-market is try to position its target market to a single industry. For example, in the recently 2 years, finechemical.com for the chemical products and Textilehome.com for the textiles and so on. Although these firms don't have the broad market as Alibaba.com, in another word, they share the special market of Alibaba.com because they are more professional and targeted.

3.2. Buyer Bargaining Power

The buyer bargaining power is the ability of customers to put the firm under pressure and it also affects the customer's sensitivity to price changes. For Alibaba.com, the customers are generally the medium and small-size firms which don't have the ability or don't need to build up their own websites. To negotiate with the biggest B2B e-platform, these firms don't have too many advantages to fight for lower cost and nearly all the standards are decided by the Alibaba.com. But with the development of B2B websites, the customers may have the opportunity to choose the other platform and that will also be the opportunity to negotiate with Alibaba.com for more rights.

3.3. Supplier Bargaining Power

Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm. Suppliers may refuse to work with the firm, or e.g. charge excessively high prices for unique resources. But for Alibaba.com, there are seldom suppliers of raw materials, components and labor because it is not a manufacture firm but an e-service one. The largest cost for this firm is cost for selling, so the most important suppliers are the firms supply the advertise for Alibaba.com, such as the famous magazines, newspapers and websites. Because these suppliers are not a union and the price is generally based on the market (it seems to be impossible for the firms to demand higher price special for Alibaba.com), the supplier bargaining power is limit and stable.

3.4. Availability of Substitutes

The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases. The most important substitute service is the self-websites of large companies. For the customers which prefer to make business with large companies, they will not turn to Alibaba.com but directly contact with the companies themselves.

3.5. Competition

For most industries, this is the major determinant of the competitiveness of the industry.

Sometimes rivals compete aggressively and sometimes rivals compete in non-price dimensions such as innovation, marketing, etc. The most competitive firms of Alibaba.com are the search-websites such as Baidu.com and Google.com. The potential customers may search the results just through these free and simpler websites but not through the B2B e-platform, which will lead Alibaba.com to lose lots of profit.

4. Present the Corporation Now

4.1. Vision

To last 102 years

To be one of the world's top 10 internet sites

To be an essential partner for all business people

4.2. Mission

To make doing business easy

4.3. Values

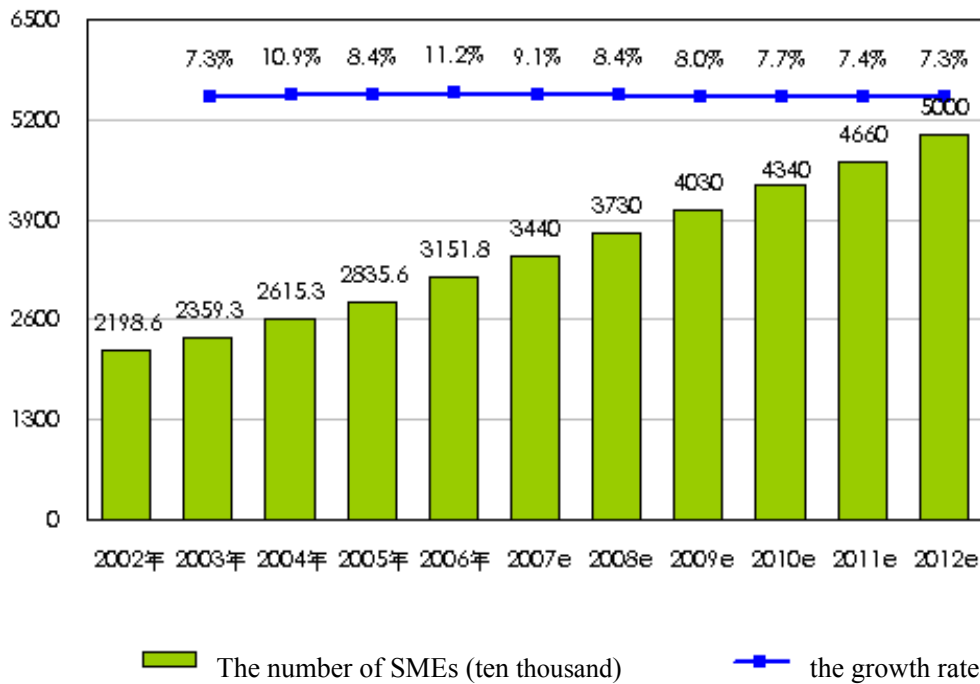
Customer comes first	Customers are everything
Teamwork and Cooperation	Team interests are always ahead of individual interests
Embrace changes	Go beyond yourself and welcome changes
Integrity	Honest and upright, honoring commitments
Passion	Never give up and stay optimistic
Honoring your job	Perform the extraordinary with a professional attitude and an ordinary mind

5. Environment

5.1. Macro environment

According to the latest iResearch released "in 2007 China's small and medium-sized B2B e-commerce study," data show that in 2006 the total number of Chinese small and medium-sized 31518000, in the state system conditions gradually improved, well-developed macro-economic environment, China has become the world's such as a manufacturing center, driven by favorable factors, Erel next 5 years will be for the expansion of China's small and medium-sized, small and medium enterprises will remain 7% -8% annual growth rate, the total number of SMEs in 2012 will reach 50 million.

The numbers of SMEs form 2002 to 2012



5.2. Competitors Analysis



5.2.1. Global Sources

Global Sources is a Hong-Kong based business-to-business (B2B) media company that facilitates trade between Greater China and the world. It provides sourcing information to volume buyers and integrated marketing services to suppliers. A wide range of media is used to connect suppliers and buyers worldwide – online portals, magazines, research reports, and trade fairs.

Global Sources advantage

1. The promotion of more channels and market research reports and organize their own event.
2. Promote experienced Global Sources has been done for 38 years, is the old platform to promote and experience.
3. Has its own fixed base of buyers, manufacturers

Global Sources disadvantage

1. Less well-known domestic brands than Alibaba.

2. Less number of suppliers than Alibaba groups.
3. Publicity and advertising no better than Alibaba channels.
4. If the three channels at the same time promoting the relatively high cost.
5. Alibaba positioned to service small and medium-sized, Global Sources in the large enterprises (SMEs are more).
6. Apart from the "world managers" journal, other magazine subscription needs to reduce the number of the issue. With the rise of e-commerce, CD-ROM and paid magazines will be gradually out the stage of history.



5.2.2. Made-in-China.com

China manufacturer directory and China products catalog, providing trade leads among China factory, manufacturers, suppliers, and global buyers

Made-in-China.com advantage

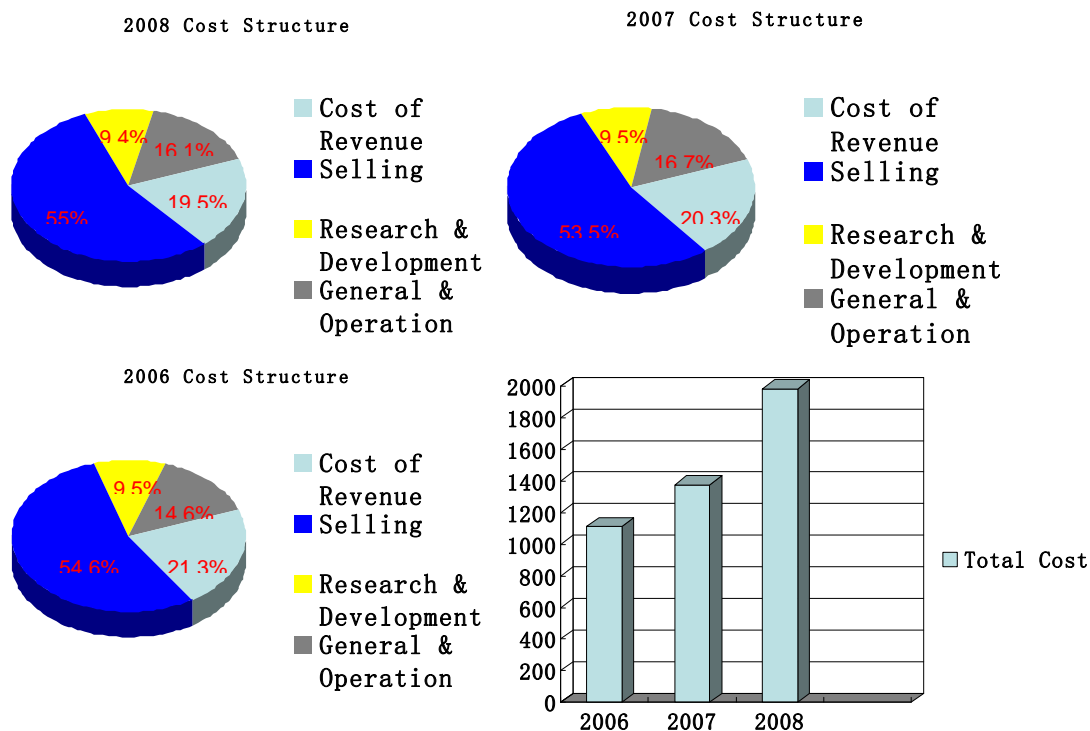
1. It is under the Focus Technology Co. Ltd, has financial strength.
2. English name is made-in-china, a good Web site optimization, to some extent the search engine to facilitate search.
3. The prices are cheaper.
4. The use of agent systems. Rapid accumulation of short-term source of funds to expand the business scale.

Made-in-China.com disadvantage

1. Less well-known domestic brands than Alibaba.
2. Less number of suppliers than Alibaba groups.
3. Publicity and advertising no better than Alibaba channels.
4. Agents management uneven, and sometimes have a negative impact on Made-in-China.com's services.

6. The Financial Analysis

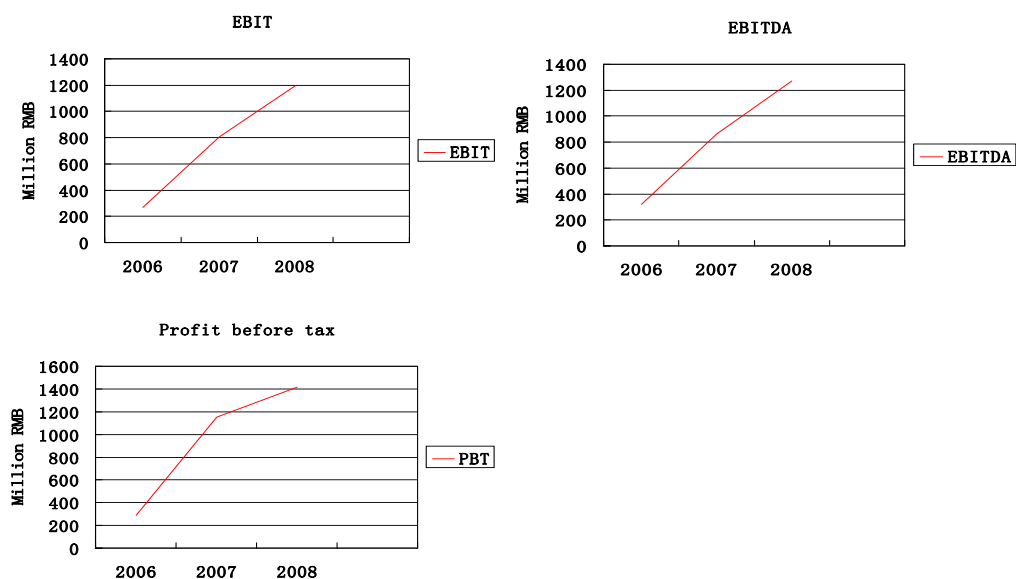
6.1. Cost Structure



As the chart above, the cost of Alibaba.com includes 4 parts: cost of revenue, selling, research & development, general & operation. Hereinto, the rate of cost of selling is the most costly part of the total cost and the rate of cost of revenue is very low, because the business of Alibaba.com is supplying the electricity service for B2B customers.

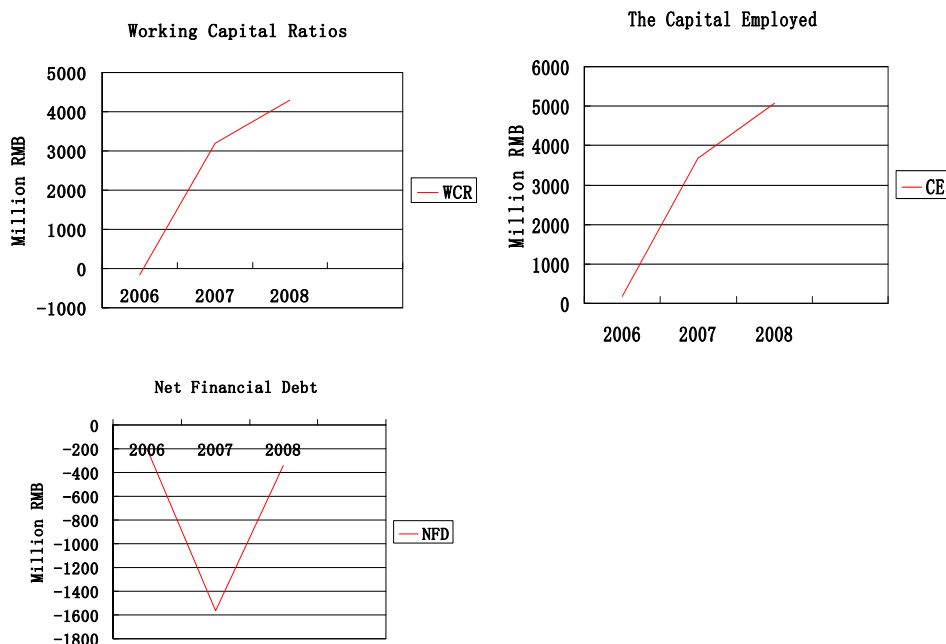
Through the current of the past 3 years, the cost of revenue decreases about 2%. That's because the technique using for revenue is renewed continually. From yellow pages website, business advertising website to the B2B e-business communication tool, the company transconformates to the high-technical company successfully.

6.2. Margin Analysis



The EBIT and EBITDA increase directly in the past 3 years, but the increasing current of profit before tax decrease distinctly from 2007 to 2008. That's because the interest of 2008 increases a lot also. Although the profit of Alibaba.com is still perfect from the financial report of 2008, it will be dangerous signal if it does not pay enough attention in the drop of increasing current, especially in the period of financial crisis in 2009.

6.3. Financial Situation



6.3.1. Working Capital Ratio

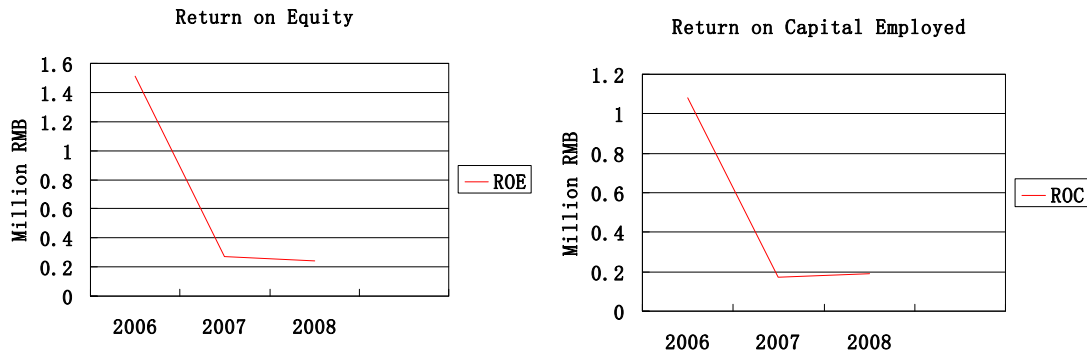
As a part of operating capital, Alibaba.com had a working capital deficiency in 2006. That means it was short of liquidity and it was dangerous for the firm to continue its operation. Fortunately, from 2007, the working capital becomes to be positive and increases a lot to more than 4000 millions RMB in 2008. That means the firm has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses.

6.3.2. The Capital Employed

Based on the chart of capital employed, we can find that the firm's ability of generating revenue increase about 27 times in the past 3 years. It is a perfect imagine for any company especially for the large enterprise like Alibaba.com.

6.3.3. Net financial Debt

Because of the high profit, Alibaba.com did not have any debt in the past 5 years, its operating cost is all from its earning and that's a signal of strong capacity for a company. But the net financial debt is like a big "V" below zero in the chart in the past 3 years, that's because the cash was far from maximum use in 2007.



6.3.4. Return on Equity

Although the most of date shows that the financial situation is perfect in the past 3 years, the date of return on equity gives a warning to Alibaba.com. In the past 3 years, the return on equity decreases from 1.5 to 0.2, which means the profitability of the shareholder's equity in 2008 decrease to 0.18 of 2006. Generally speaking, the return of equity is still competitive in the e-business industry.

6.3.5. Return on Capital Employed

Nearly the same, the return on capital employed of 2008 decrease to 0.18 of 2006. The gaining of its assets decrease so much maybe because of the highly increase in asset such as land. But further more, the main drawback of ROCE is that it measures return against the book value of assets in the business. As these are depreciated the ROCE will increase even though cash flow has remained the same. Thus, older businesses with depreciated assets will tend to have higher ROCE than newer, possibly better businesses. In addition, while cash flow is affected by inflation, the book value of assets is not. Consequently revenues increase with inflation while capital employed generally does not.

7. SWOT Analysis

7.1. Strength(S)

1. The site has a team of three (Britain, China, Japan), to include broader customer base, and conducive to information exchange, an increase of the amount of information, but conducive to building momentum to expand its influence.
2. Alibaba increases segmentation of information and comprehensive, so that more targeted and effective.
3. The world's largest Chinese Forum –“以商会友”, has created a great convenience for traders around the globe to exchange, and also closer to the distance between the various traders, but also to enhance the visibility of the website.
4. A large number of members, to enhance the visibility of the brand so that the set of information Alibaba increasing coverage, the advent of attracting business.
5. To open the "Golden supplier", a web-based transactions to ensure security.

7.2. Weaknesses (W)

1. Alibaba's Web site model is an intermediary form, and replicability of this model, which other competitors from entering the industry to provide a sample; it increased by competitors for itself.
2. Alibaba membership system to increase the fees in the process of transformation, will lead to the loss of existing members, will create the opportunities for competitors, the development of the site will be difficult.
3. Alibaba's business platform large and cluttered that it had 27 industries, 800 - 900 categories of industries as a business platform to optimize the greatest obstacles.

7.3. Opportunities (O)

1. In China, several large banks and credit companies to participate fully in the field of e-commerce, which the depth of the development of e-commerce has created opportunities.
2. China is now speeding up the development of e-commerce legal provisions, and actively creates a safe and regulated business environment.
3. China's existing small and medium enterprises can not afford to start their own b2b business website, so that online intermediaries such as the popular Alibaba their welcome.
4. The Internet continuous development and improvement, the popularization of computers, there will be more companies have joined the online business.

7.4. Threats (T)

1. Alibaba profits mainly in China, but China b2b business environment has constrained the further development of Alibaba, such as a sound law, loopholes in online payment security, not so good infrastructure in some cities, which will hold back the development of Alibaba.
2. B2B business site model, not only in the last few years with the rapid development of the world, and gradually formed a trend - e-business alliance - that is, the trend of mergers and cooperation, which will lead to more competitive.