An analysis on the “E-commerce” trade model with Alibaba case

Abstract

With high-speed development of information technology and Internet, people use Internet to obtain a plenty of information, while Internet also provides people with a more convenient lifestyle, and promotes interpersonal communication. At the end of last year, statistics show that the number of Internet users in China has exceeded 900 million, leading in the world. In this era, new companies are constantly entering the Internet industry. Compared with many established companies, these new Internet companies may develop as fast as they do, so profit models of these Internet companies should be discussed.

Alibaba is a microcosm of Chinese Internet companies, and its unique and advanced profit models are also for Chinese Internet companies to learn from. This dissertation takes Alibaba as an example to explore its mainly profit models, and evaluates its profit models from financial perspectives.

Keywords: Internet companies, Alibaba, E-commerce enterprises, profit models, financial perspectives

1. Introduction of E-commerce phenomenon

1.1 Background

Since the 1990s, the Internet industry has developed rapidly, and e-commerce trade has become popular with its mature network environment. The development of global e-commerce began in 1994, when the transaction volume was less than 1.3 billion dollars. Amazon founded in 1995 is the first company in the world to enter the B2C cross-border e-commerce industry. At the beginning of the company's establishment, its business was limited to the sale of online books, with less than 100 daily orders.

As the expansion of the business, Amazon's scope now includes dozens of first-class merchandise categories, about 2.4 million secondary category goods are sold on the website, including mobile phones and accessories, electronic products, household items, shoes and jewelry, sports and outdoor products, in addition to books and audio-visual products. It has maintained a leading position in the B2C cross-border e-commerce industry. With the development of international trend, China's trade related with countries around the world are becoming closer, business has also promoted the vigorous development.

By 2019, the total number of e-commerce companies in China exceeded 6,000, and Alibaba is the most representative enterprise. In April 2010, Alibaba built its B2C cross-border e-commerce platform AliExpress, which successfully connected domestic sellers and international buyers. At the beginning of its establishment, AliExpress has been popular with overseas consumers.

1.2 The introduction of main e-commerce companies in the world

The main e-commerce companies in the world are as follows.

（1）Amazon

Amazon is currently the largest B2C cross-border e-commerce platform in the world. The development could be divided into three stages. The first phase of was from 1995 to 1997, with the goal of becoming the world's largest bookstore. Bezos resigned from Deshaw in 1994. He found that the use of the Internet increased sharply in the spring of the year, and the growth rate reached 2300%. He also saw the great development potential of the American book market, so Bezos officially launched the Amazon website in July 1995 after nearly one year of preparation.

At that time, Amazon was positioned as a online book retailer, aiming to become the largest bookstore in the world. Amazon's online line poses a big challenge to contemporary offline book giants Barnes & Noble and Borders, because the cost of offline bookstores is high, and the attracting customers are severely restricted by geography. Although Amazon has gained cost advantages, the market needs to be further expanded. Therefore, Amazon adopted a large-scale expansion of the market strategy, using profit losses in exchange for business scale. Less than two years, the company listed on the Nasdaq, the stock price was 18 dollars per day. In May 1997, when Barnes & Noble launched its online business, Amazon had gained unique advantage in the online book retail industry. Ultimately, Amazon established its position as the world's largest bookstore. The second phase of Amazon's development was from 1997 to 2001, with the goal of becoming the largest integrated online retailer.

Bezos found that the biggest advantage of online retail compared to physical store sales is that it can provide consumers with more choices of goods. Therefore, Amazon decided to gradually develop into an integrated e-commerce from the online bookstore. Since 1997, Amazon has begun to expand its merchandise category, gradually opening up music and film channels, and promoting the sale of cultural products. At the same time, the company acquired social networks, data mining companies, and thus acquired its powerful data retrieval function and database, technology. After that, Amazon set up its own distribution center to promote self-operated warehousing logistics. In the process, Amazon insists on cooperating with other courier companies and continuously improving its logistics and distribution service level.

In 1997, Amazon's user usage ranked 20th in the world. At the beginning of 1999, the company's market value reached 6 billion dollars. Through continued products and international markets expansion, Amazon has become the largest online retailer by the year 2000. The third phase of Amazon's development is from 2001, with the goal of becoming a customer-centric company. Amazon made a large-scale adjustment in 2001, mainly in the following aspects. First is small layoff, while closing the redundant distribution center and customer service center. Second is entrusting product freight business to third-party logistics company to reduce operating costs. Third is making organizational adjustments to reposition the company as an online trading service provider. After that, Amazon has put more patience and capital to developing core competition business, launched Prime membership service in 2005, and then provided FBA (Fulfillment by Amazon) service to merchants in 2007.

With the gradual promotion of Amazon's range of business, it has finished a gorgeous transformation from online retailers to integrated service providers. Amazon has provided a plenty of data support to its cloud services through the acquisition of data companies such as Alexa and Junglee. Through the acquisition of online music store CD Now, DVD maker Custom Flix, shopping site Shopbop, sound reading website Audible, digital camera evaluation website Dpreview and other types of products, it can expend the product scale. Through the acquisition of automated robot company Kiva Systems, digital comics company cosi Xology, video game streaming service Twitch, it can provide consumers with digital services.

At present, Amazon has established e-commerce websites in 14 countries including the United States, Japan, etc., and it has built 123 operation centers across Europe and Asia, spreading its logistics business all over the world. The latest data shows that after nearly 20 years of rapid development, Amazon's market value in 2019 reached 979 billion dollars, 163 times of that in 1999.

（2）Ebay

The eBay online shopping platform was built in the United States in 1995 and has a growing market share and is currently operating in more than 30 countries. At present, eBay has more than 10 million registered users. In 2019, eBay's total merchandise transactions in the third quarter of 2019 reached $21.7 billion, with about 190 million global active buyers. At present, eBay is one of the world's online shopping platforms and the second largest e-commerce website in the United States.

Now the development of the global e-commerce market still has great potential, because the e-commerce markets of many developing countries such as Brazil and India will further build up, and the coverage of the Internet is now less than 60%, eBay's development will lead to a new trend, and the market scale will be further advanced. The eBay platform acquired mobile phone website in May 2000 to develop this kind of business, which became one of eBay's development features. The second feature is that eBay merged several auction sites to increase the online auction business between 2001 and 2004.

Then as online payment rising , eBay acquired Paypal and explored the online payment system. EBay relies mainly on the evaluation system to prevent scams while protecting sellers, regardless of the transaction. In order to improve the e-commerce platform industry, eBay has added a price comparison function. It cooperates with

NetEase and Sina force its strength. The advantages of joint and complementary resources have expanded the user space for bidding transactions. In early 2014, it explores software PHISIX that can be based on photos and various graphic files. The source creates a 3D model along with other document sources, and finally simulates the customer's trying on clothing effect. The payment security of eBay platform is handled by Anfutong and Paypal for buyers and sellers' security.

In terms of fees, eBay not only needs to open a store, but also needs to rent it. The seller of the commission fee is 10% of the value of transaction, there are basic fees, special feature fees, promotional merchandise fees, value-added service fees, including shipping costs. The basic fee has a publication fee and a transaction fee. The list of images for each item has 12 free image storage, additional items need to apply to the platform. After the success, the transaction fee accounts for one tenth of the total turnover, and the maximum limit is 750 dollars. In addition, as a payment method to the platform, there is also a certain payment when using Paypal.

Trade on the eBay platform is often in small quantities, small amount and high frequency, because the buyer is scattered. Transportation is one big problem. American logistics is far from the development of China's logistics capabilities, generally the shipments from the far-off area use FEDEX and USPS express. Most of eBay's sellers are going to use the US post to save money. There is no guarantee that the goods will be received within one week. Currently, in order to solve the problem of slow logistics, eBay is planning to build the logistics platform. Millions of goods are delivered within three days of guarantee service. However, this speed is still slower than Amazon to guarantee "Gold Members" to any corner of the United States for two days service.

（3）Wish

Wish was founded in 2011 in Silicon Valley, USA. In 2013, it joined the commodity trading system and began to enter the nephew. In the field of electricity trade, it has mobile shopping app, focusing on product display and personalized recommendation according to the enthusiasm of each user.

It is currently the largest mobile shopping platform in North America, Wish has a variety of vertical shopping apps on the line in 2015, and received 500 million dollars in financing. In January 2016, it won a total of 50 million dollars. Nearly half of the users are distributed in the United States and Canada, mainly young people aged 18-35. Currently it sells about 6,600,000 kinds of products, the daily sales exceeded 1.25 million.

Wish uses smart push technology to connect users with the products what they want to buy to reach the barrier-free connection. Wish only displays products that consumers are likely to buy, collect and share, usually only show at a time. For consumers, wish does not need to filter them. If consumers are not interested in home and jewelry products, wish will not show them such products, it can save time for consumers to purchase products and increase shopping efficiency. It was given to the most intent-buying consumers, and through this kind of precise marketing, the conversion rate was improved, and the satisfaction was also improved. As a result, sellers can achieve significant growth in sales in the short term. The goods on Wish are cheap and good, because most of the goods sold are non-branded products, the price is relatively low, its core hot-selling categories include clothing, jewelry, 3C electronics and gifts, and most of the goods are shipped from China. The core value of wish is to connect customers and content without barriers. The brand is just equivalent to an attribute for wish. For wish merchants, the most important factor affecting the flow of their products is product tags.

The advantages of Wish compared to other cross-border shopping platforms are as following. The operating rules are simple and straightforward. The initial weight distribution of products is fair with the product operation indicators to adjust the recommended weights and distribution of traffic. It uses social marketing according to different labels to make users' interest judgments, it can easily get accurate audiences, through wisdomCan recommend the technology to maintain an invisible interaction with the user. As it is in the development stage, the inadequacies of wish are also inevitable. For example, there are many problems in the management of sellers. The review mechanism has drawbacks, there is a problem with the way and algorithm for judging the imitation.

（4）Alibaba

Alibaba has become a shining star among Internet companies because of its good positioning, stable structure and excellent service. It is also a famous B2B business website all over the world. It has significant achievements in payment and search.

Alibaba’s building in Hangzhou, China

According to the financial report released by Alibaba in 2019, Alibaba's FY 2019 revenue was RMB 376.844 billion (approximately US$ 56.152 billion), a year-on-year increase of 51%. Not in accordance with US General Accounting Standards (Non-GAAP), net profit for FY 2019 was RMB 93.407 billion (US$13.918 billion), an increase of 12% over the same period last year. 42 analysts on Wall Street on average expected Alibaba's revenue in FY 2019 to be US$54.55 billion. The financial report showed that Ali's total net revenue for FY 2019 was US$56.152 billion, higher than analysts' expectations.

Alibaba brings over 900 billion incremental business to brands and businesses. As of the end of March 2019, Mobile users of Taobao Tmall reached 721 million, up 104 million and 22 million from the same period in the last year and the previous quarter. As of the end of March, the annual active consumers reached 654 million, an increase of 102 million over the same period last year. Tmall physical commodity transaction volume increased by 31% in FY 2019, and increased by 33% in the fourth quarter. The growth rate exceeded the growth of the industry, and the growth rate of the online retail sales of physical commodities was 25.4% for the whole year and 21% for the first quarter.

The fiscal report is shown as following,

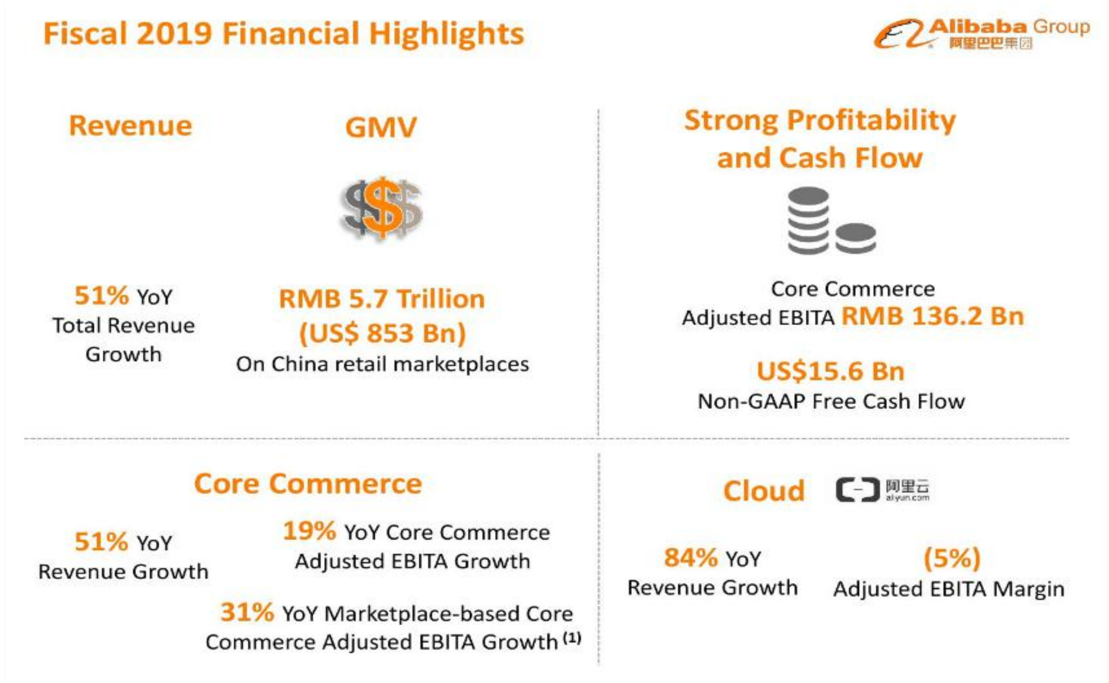
Fiscal 2019 Revenue

Alibaba Group 阿里巴巴集团

- **Total Revenue** was RMB376,844 million (US$56,152 million), an increase of 51% YoY. The increase was mainly driven by the robust revenue growth of our China commerce retail business, the consolidation of newly acquired businesses, mainly Ele.me, as well as strong revenue growth of Alibaba Cloud.
- Excluding acquisitions, organic revenue growth was 39% in FY2019, continuing to outperform those of global technology peers.

Total Revenue Breakdown(1)

	Year ended March 31, 2019			
	RMB MM	% of Revenue	YoY %	
Core commerce:				
China commerce retail				
- Customer management	145,684	39%	27%	29% YoY
- Commission	61,847	16%	33%	
- Others	40,084	11%	155%	
	247,615	66%	40%	
China commerce wholesale	9,988	3%	39%	
International commerce retail	19,558	5%	38%	
International commerce wholesale	8,167	2%	23%	
Cainiao logistics services	14,885	4%	120%	
Local consumer services	18,058	5%	N/A	
Others	5,129	1%	90%	
Total core commerce	**323,400**	**86%**	**51%**	
Cloud computing	24,702	7%	84%	
Digital media and entertainment	24,077	6%	23%	
Innovation initiatives and others	4,665	1%	42%	
Total	**376,844**	**100%**	**51%**	



"Alibaba is increasingly becoming a daily synonym for Chinese consumption, with 650 million active consumers throughout the year and expanding our penetration rate in the sinking market." Zhang Yong, CEO of Alibaba Group, said, "Our data technology, cloud and huge pulling effect of retailing allow us to change the way of companies operation in China and other emerging markets, which will bring the benefit to our long-term growth."

"We achieved solid results again in this quarter and fiscal year, with revenue growth of 51% year-on-year, strong user growth and active eco-interaction," said Wu Wei, chief financial officer of Alibaba Group. "In the past years, we have achieved steady profit growth and cash flow that allows us to invest in new businesses, deepen our core business and create unique value for our customers. These investments expand the overall target market and build a well foundation for long-term growth."

As the most famous e-commerce and Internet company in China, Alibaba has studied its development process and promoted the innovation. Moreover, through its research on its profit model, it could also enrich Chinese e-commerce theoretical research. Therefore, this dissertation will use Alibaba as a study case, supplemented by the most mainstream Internet profit models.

（5）**Jingdong Mall**

Jingdong is China's second largest e-commerce platform. The original intention of its establishment is to give customers a pleasant consumer experience. The development concept of the company is customer-centered and it has become the top e-commerce enterprise in the country. It is currently the largest 3C online shopping platform in China.

Jingdong Mall building in Beijing

According to data released by the authoritative data website in 2019, JD.com accounts for about 60% of the Chinese electronic products trading market. From the very beginning, Jingdong was mainly selling computer products. With the development of the company and the domestic online trading market, it has expanded to millions of products, and the services provided are dazzling. The Jingdong website is different from the Alibaba website. The main focus of its sales is the transaction between the company and the individual. It is a professional trading platform to complete the transaction between the enterprises and the consumers. The products of the Jingdong website are retail electronics.

In order to provide better customer experience and service, Jingdong Mall has set up this special express company to specialize in distribution service, and set up four major centers to form Jingdong's proprietary logistics network. Consumers can not only experience Jingdong's excellent online services, but also directly experience the best quality service content online.

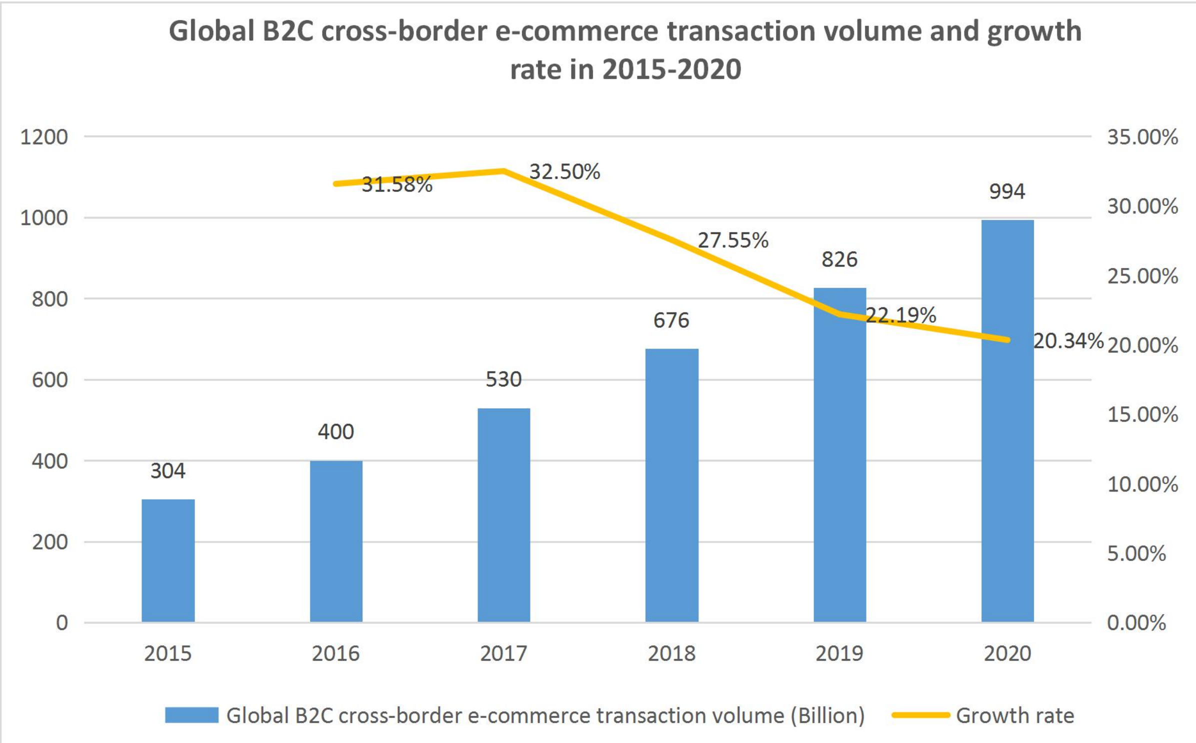
In addition, Jingdong Mall has launched after-sales maintenance services with obvious features, such as price protection and delayed warranty service. The main sources of Jingdong Mall show a significant diversification trend, including the main income of commodity sales, store rental expenses, the direct economic benefits and advertisements generated by the investment interactions of the third-party platform fee. In addition to online payment and third-party platform payment, Jingdong Mall can also conduct diversified trading activities. The most characteristic is cash on delivery, which provides consumers with more convenient, safe and reliable transactions.

Jingdong has always advocated quality, efficiency and service, it has the highest proportion of first-tier and second-tier cities and male users in China. The sinking market users' shopping scenes are fragmented, price-sensitive, and deeply influenced by social influence, but Jingdong are not good at the more effective promotion, spike, subsidy and other means. At present, the experience store of Jingdong is still mainly concentrated in 3C digital products. On August 13, Jingdong released its second quarter financial report in 2019. In the second quarter, revenues reached 150.3 billion yuan, a year-on-year increase of 22.9%. The net profit attributable to ordinary shareholders under non-GAAP was 3.6 billion yuan, a year-on-year increase of 644%. Retail Group's rotating CEO Xu Lei attributed JD's growth to the development of the sinking market. He said, "Jingdong's low-line market users from the third to the sixth line are growing faster than first-tier and second-tier cities. Nearly 70% of new users come from low-tier cities, and more than half of the total users come from low-tier cities." The complex sinking market has unlimited opportunities, but it is also full of traps. If Jingdong wants to dig from this situation, it needs to completely get rid of its own inherent genes and path dependence.

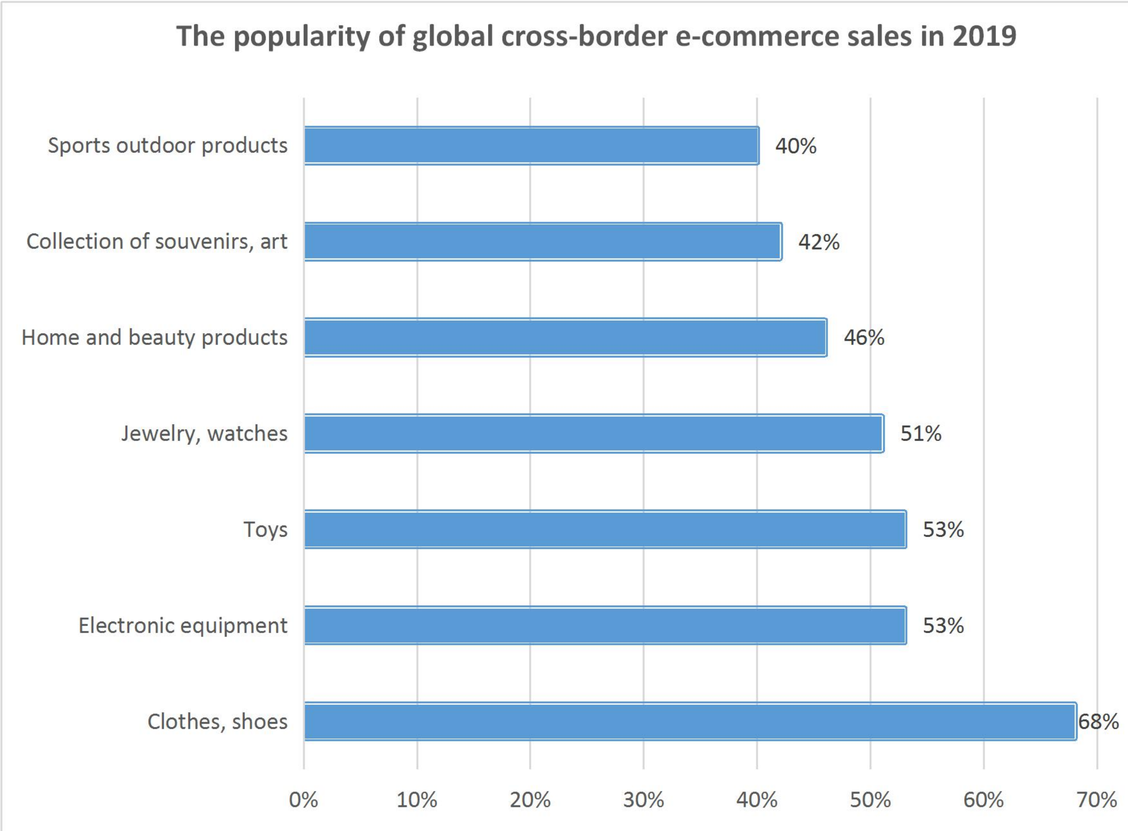
1.3 E-commerce main trend in the world

According to statistics, the global B2C cross-border e-commerce transaction volume exceeded 650 billion US dollars in 2018, the transaction scale increased by 27.5% compared with last year, and it was expected to exceed 800 billion US dollars in 2019. The global cross-border online shopping penetration rate reached 51.2%, of which the consumers in the Middle East of online e-commerce accounted for the highest proportion, reaching 70%. Apparel, shoes and hats are the most popular category for consumers through cross-border e-commerce. Western Europe is Europe's largest e-commerce market, with the highest penetration rate of the online shopping way in the Portugal and Macedonian region. Cross-border e-commerce accounts for 25% of the Australian e-commerce market, and Australian online shoppers prefer cross-border purchases of Anglo-American products. In Latin America, the development of e-commerce in Brazil is relatively mature, and the e-commerce in Argentina is developing rapidly.

Here are the global B2C cross-border e-commerce transaction volume and growth rate during 2015 to 2020 shown.

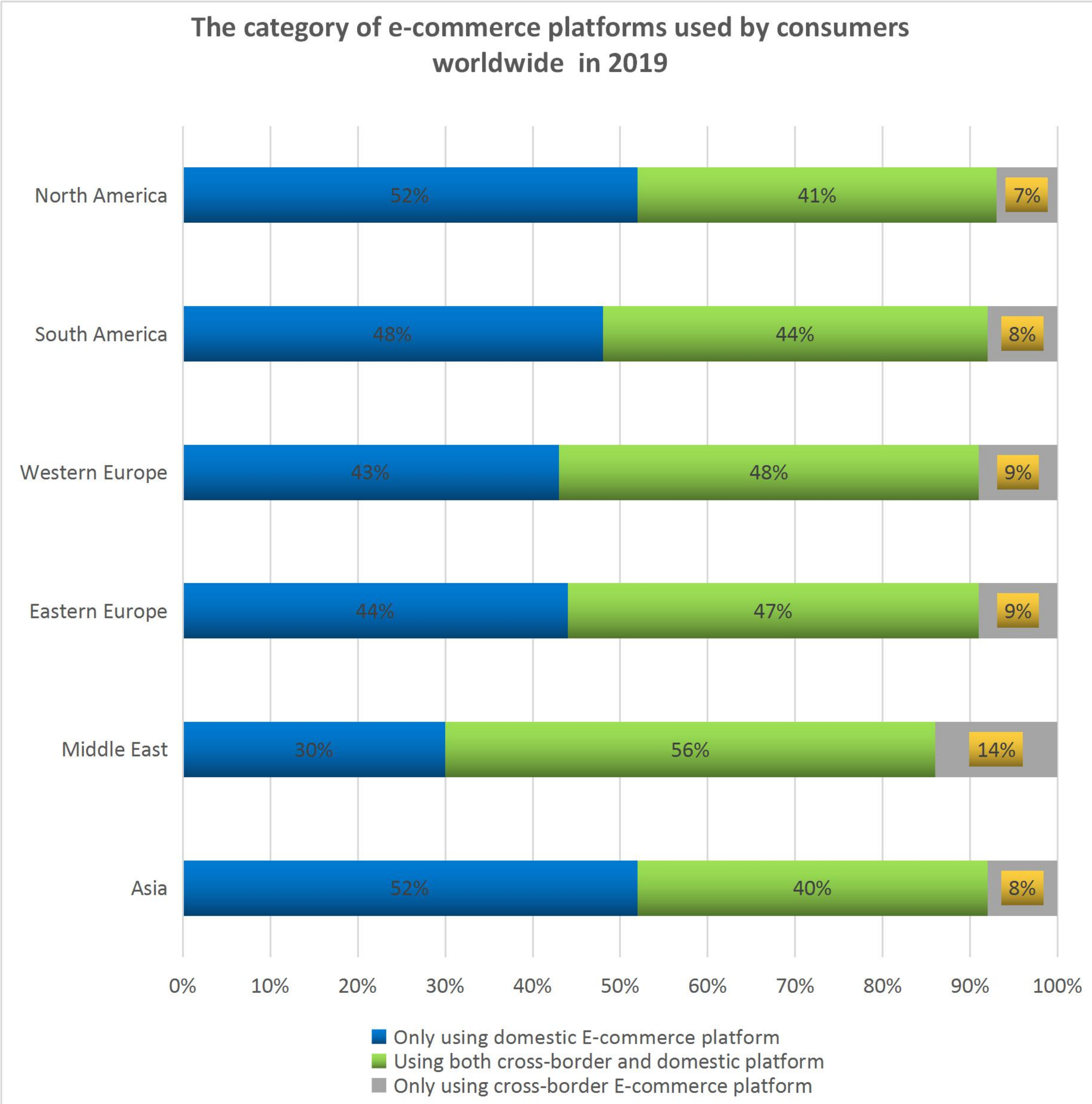


Through data survey and analysis, apparel, shoes and hats are the most popular category for consumers to purchase through cross-border e-commerce, as shown in the following figure.



1) Middle Eastern consumers like shopping on line most

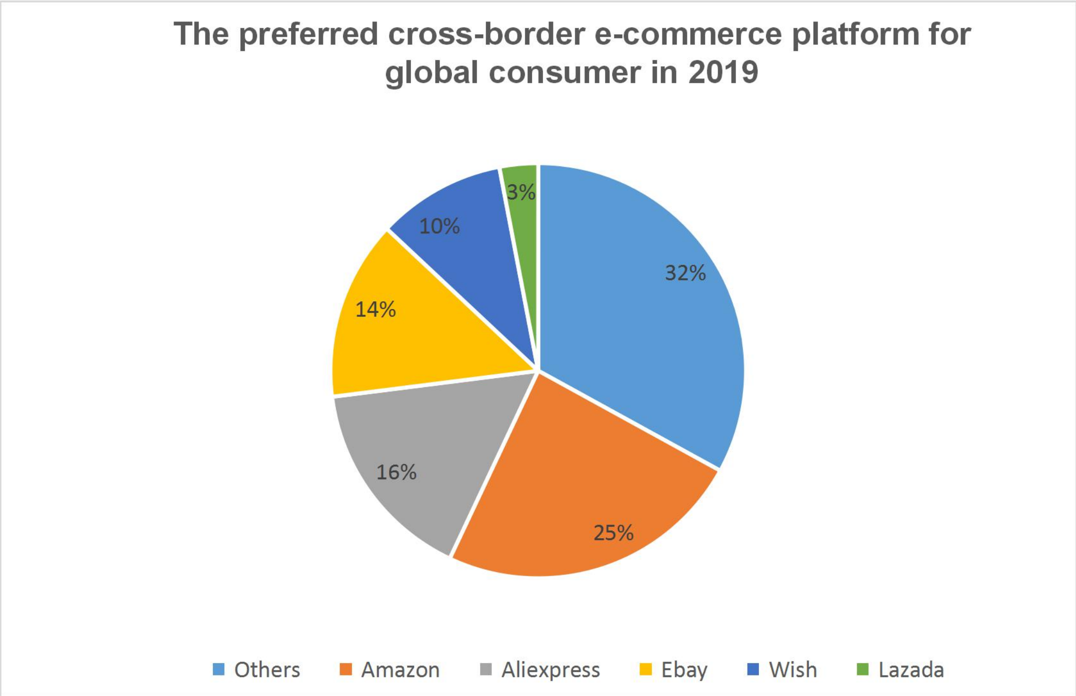
Compared with other regions, consumers in the Middle East using cross-border e-commerce for online shopping account for the highest percent, while cross-border e-commerce users in North America and Asia Pacific are less than 50%. The number of consumers shopping online in the region is less than 60% in Europe and South America.



2) Amazon and AliExpress become the top choices for cross-border shopping

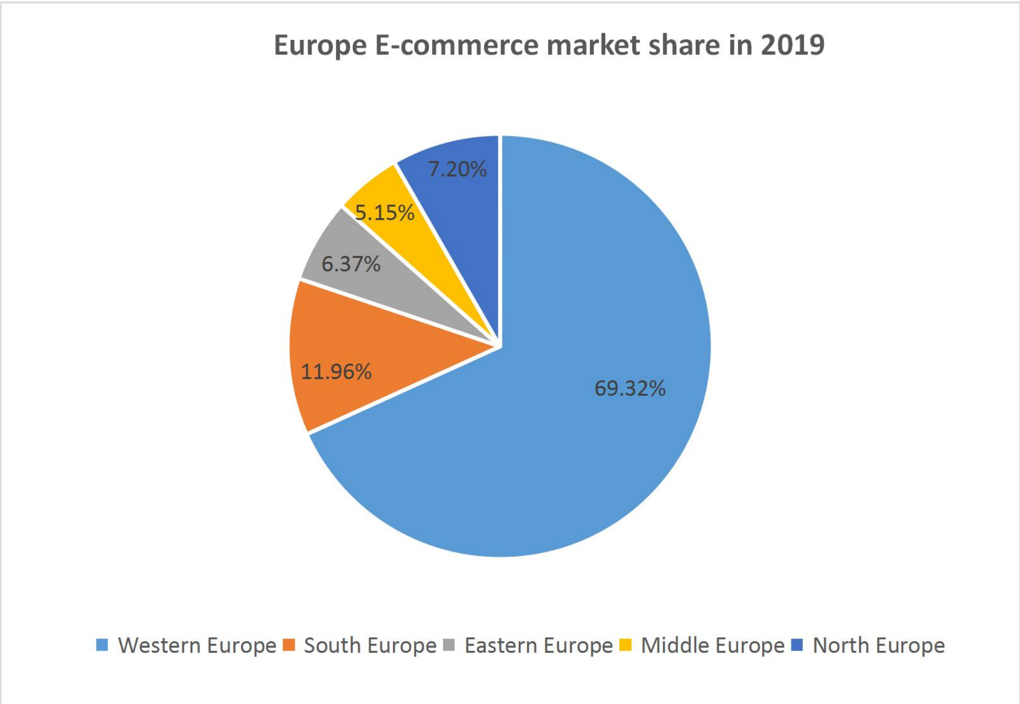
As of 2019, the survey showed that global consumers used e-commerce platforms for cross-border shopping, 25% of consumers chose Amazon, and 16% chose Alibaba's AliExpress, 14% chose eBay and 10% chose Lazada.

The preferred cross-border e-commerce platform for global consumer in 2019 is shown as following.

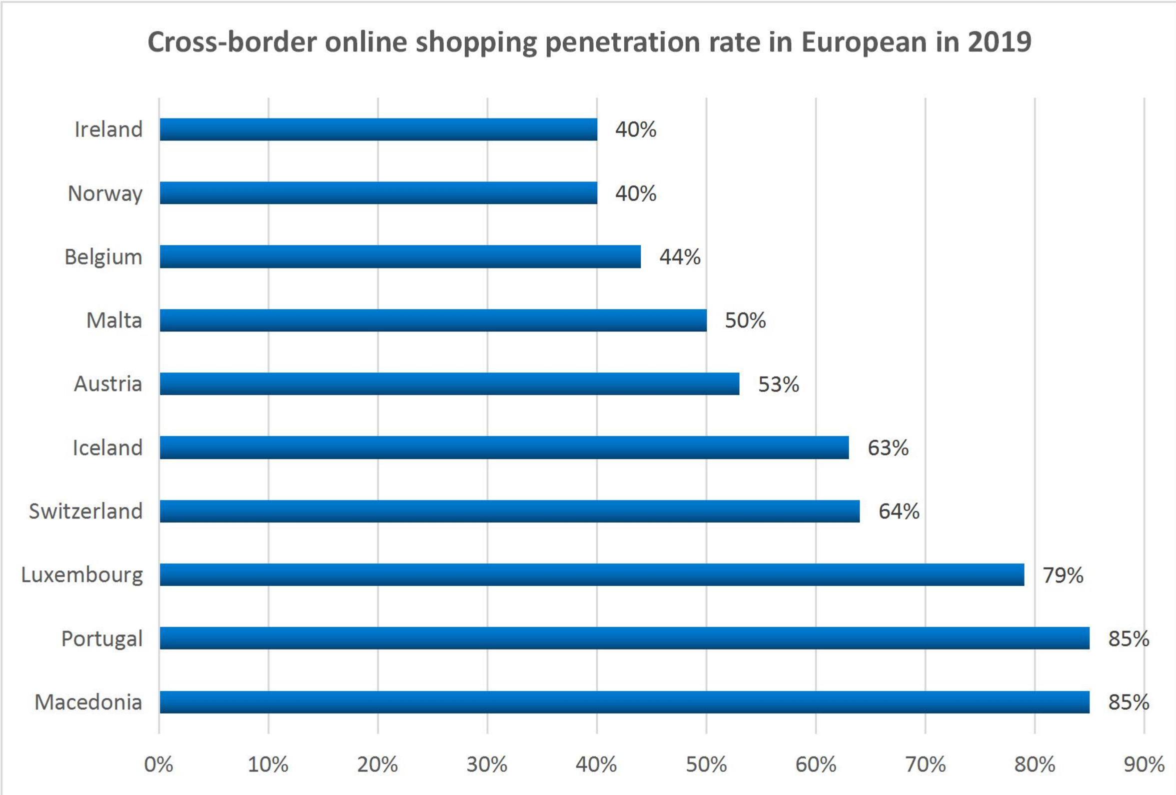


3) Western Europe is European largest e-commerce market

According to the data of 2019, the market share of e-commerce in Western Europe reached 69.32%, which is the largest e-commerce market in Europe, followed by Southern Europe. The e-commerce market share accounted for 11.96%, and the lowest was middle Europe, accounting for only 5.15%.

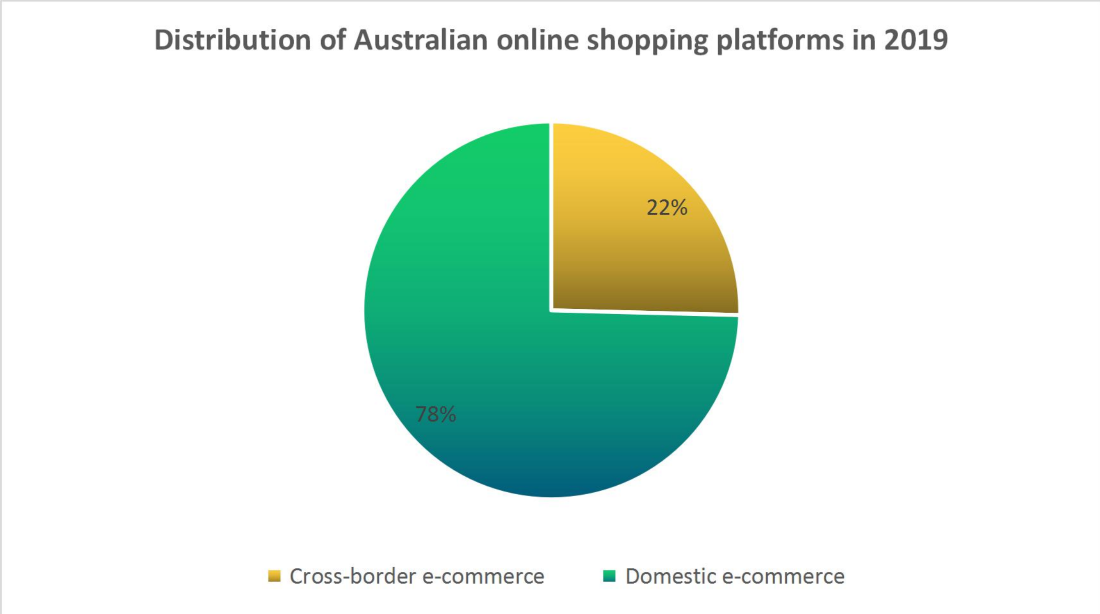


Among the European countries, the highest cross-border online shopping penetration rate is in Macedonia and Portugal, followed by Luxembourg, then Switzerland. The cross-border online shopping penetration rate in Europe reflects a large regional difference, with the number one region being as high as 85%, the last region being as low as 2%.



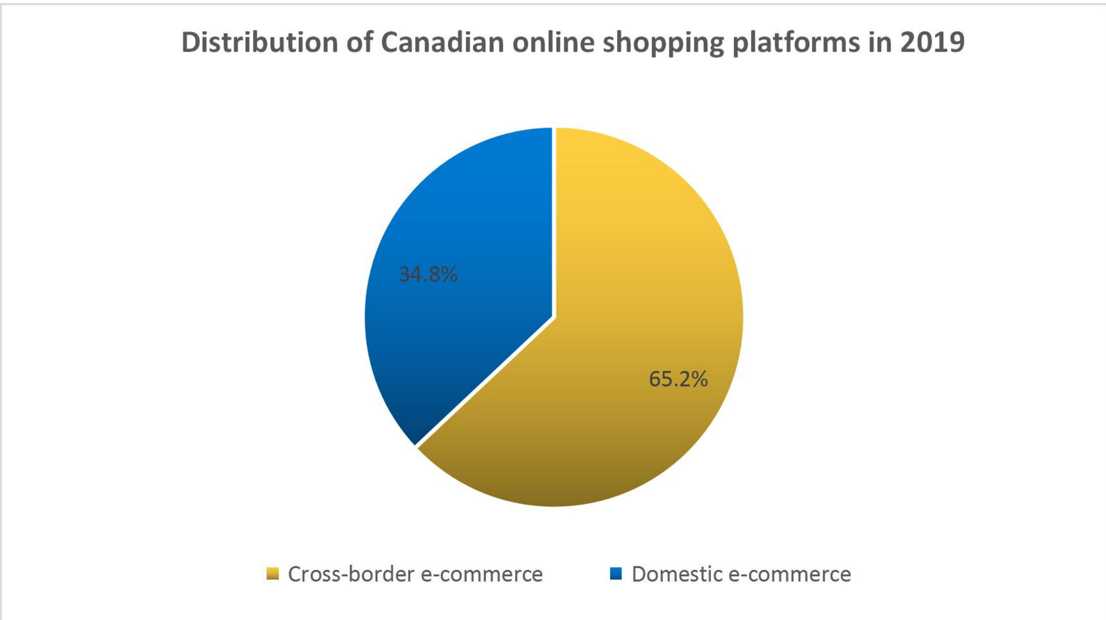
4) Cross-border e-commerce accounts for 25% of the e-commerce market in Australia

The data shows that Australian domestic e-commerce accounts for the largest share of online shopping, the percent is 78%. Only 22% of online consumption is conducted on cross-border e-commerce platforms.



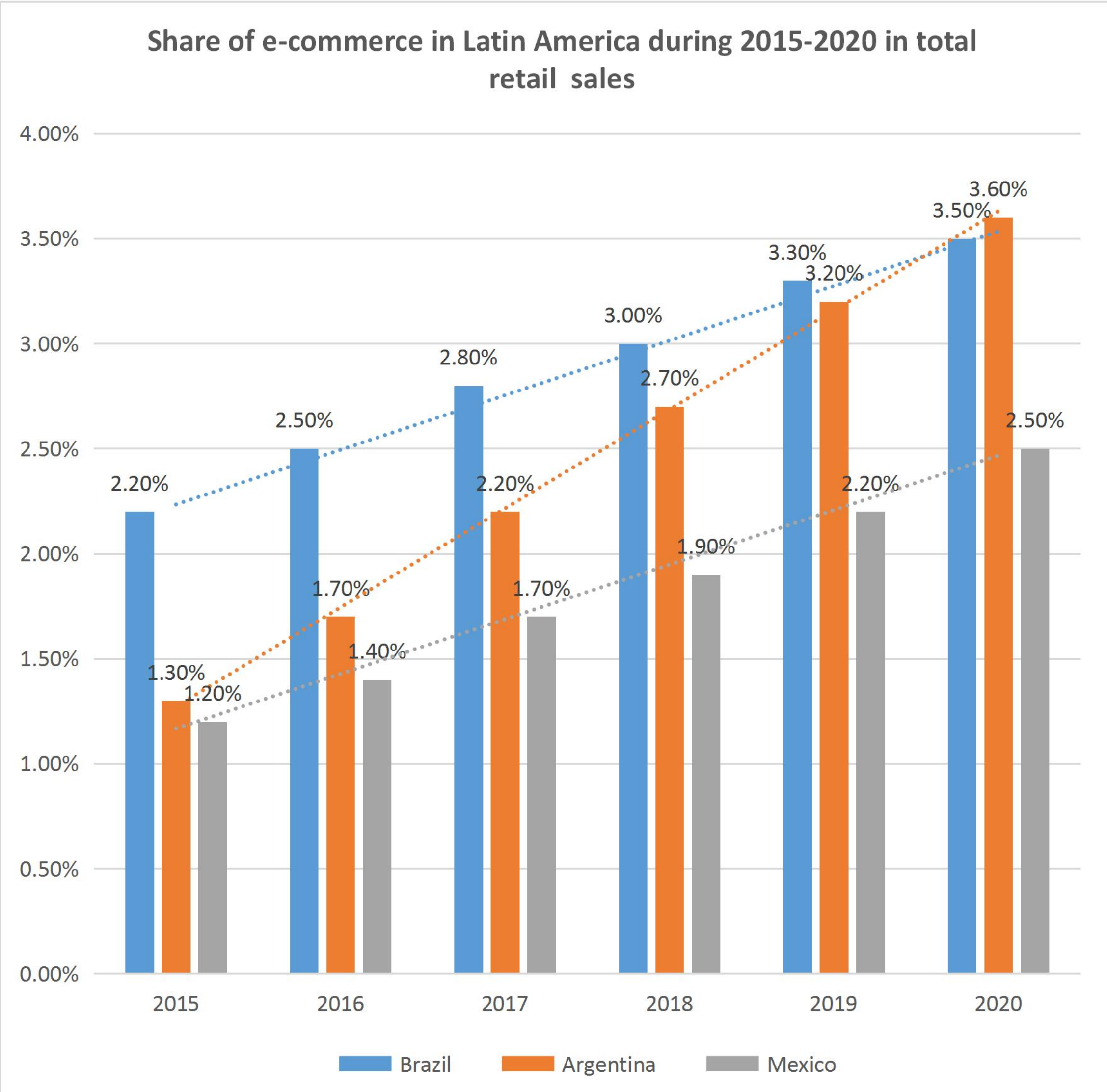
5) Australian online shoppers prefer cross-border purchases of American and British products

The data shows that 80% of online shoppers in Australia have used cross-border e-commerce to purchase products, far higher than the global average of 51.2%. Because there are no language barrier, cross-border e-commerce users in Australia prefer to buy products from the UK and the US. In 2019, online shoppers in Canada reached 2.85 million. 65.2% of online shoppers used cross-border e-commerce to purchase products. Cross-border e-commerce users in Canada favored the purchase of products from the US, China, Mexico and Germany.



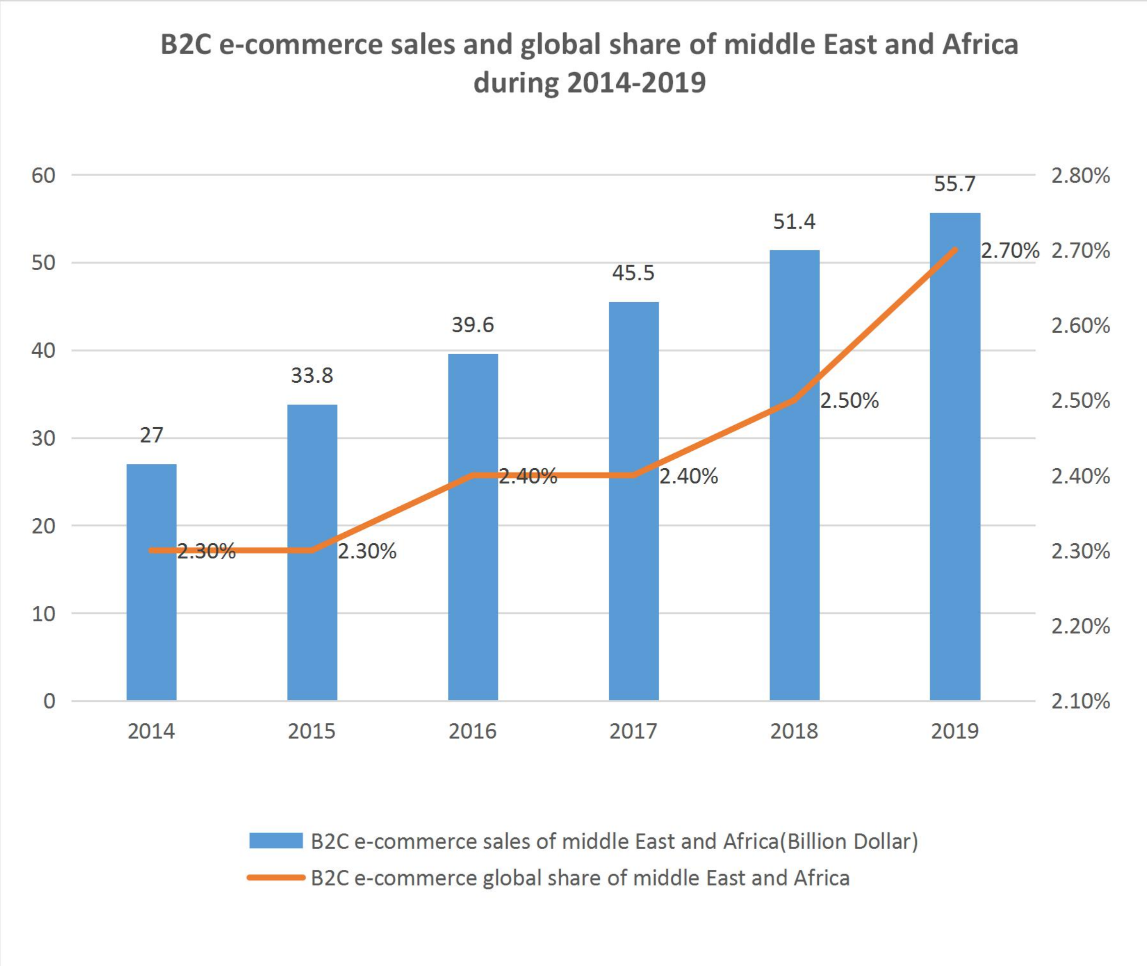
6) Brazil's e-commerce development is more mature, Argentina's e-commerce is developing rapidly

Compared with other countries, Brazil's e-commerce development is relatively mature, and the proportion of e-commerce to total retail sales reached 3% in 2019. Argentina has developed rapidly in recent years. Its share of e-commerce has approached that of Brazil in 258, reaching 3.2%, it is expected to surpass Brazil in 2020. Mexico's e-commerce has developed relatively slowly, with a share of only 2.2% in 2019.

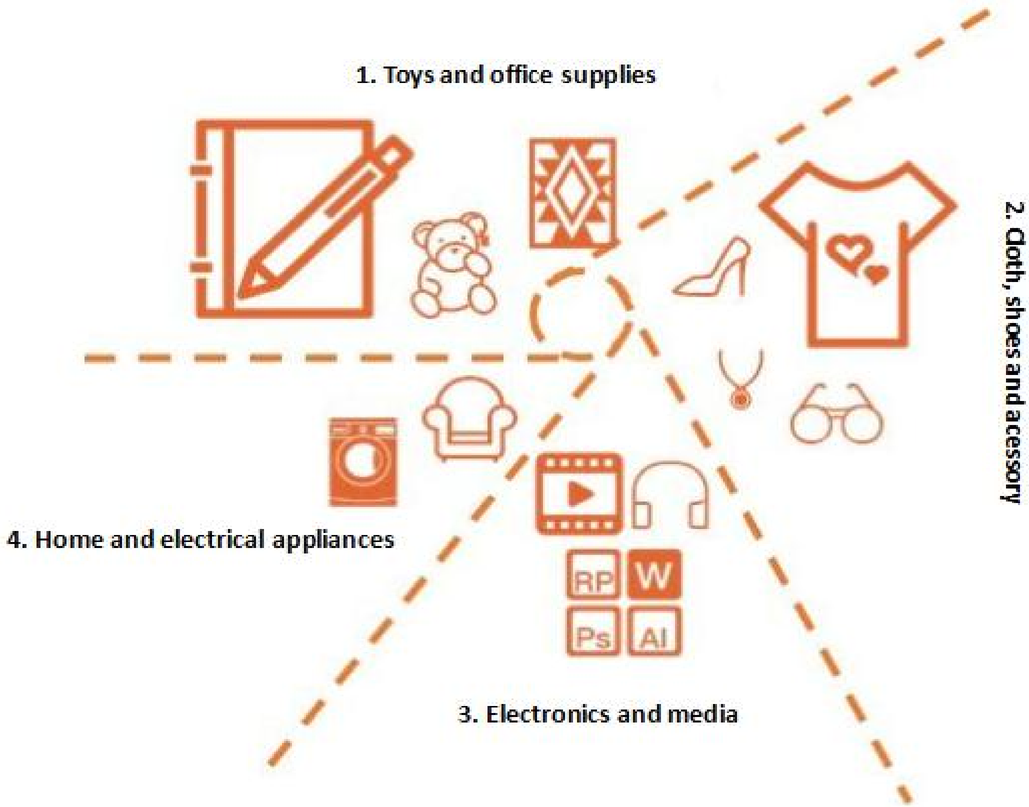


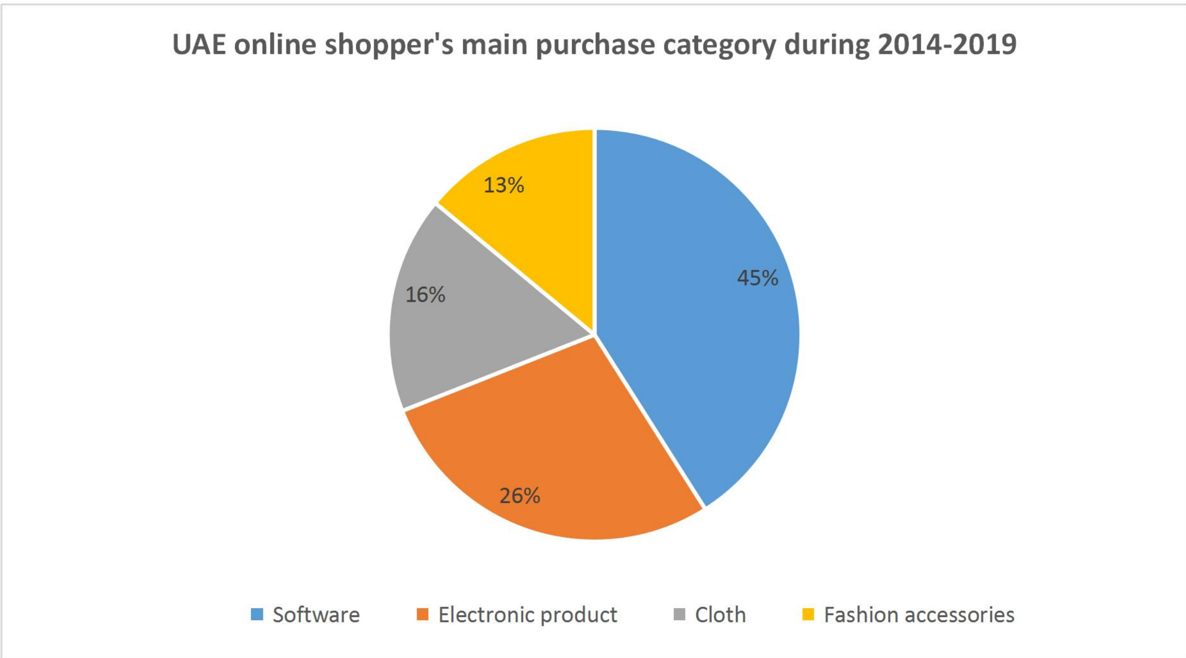
7) E-commerce sales in Africa and Middle East accounted for 2.5% of the global total, reaching $51.4 billion.

B2C e-commerce sales and global share of middle East and Africa during 2014-2019 is as following, we can see the growth rate is develop sharply since 2017 in middle East and Africa for B2C e-commerce sales. It can be indicated that e-commerce shopping has become a part of people's shopping life.

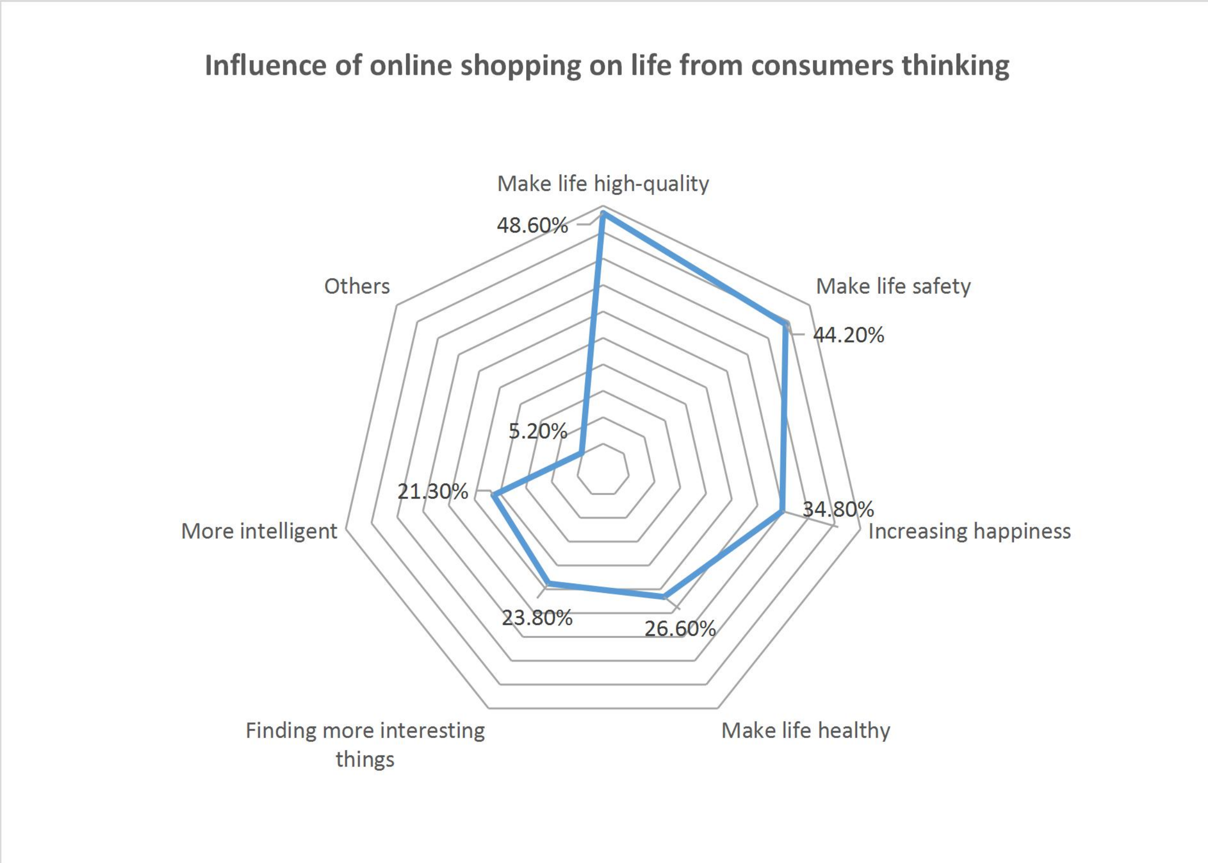


According to the survey data, Saudi Arabian online shopper's main purchase category during 2014-2019 is as following,





In 2019, 48.6% of users thought that overseas products made life more high-quality, 44.2% of users thought that overseas products made life safer and healthier, and 34.8% of users thought that overseas products made life happiness.



1.4 E-commerce main trend in China

The development of Internet companies in China depends on the Internet. With the continuous development of China's economy, the number of Internet companies in China is increasing. Many well-known Internet companies such as JD, Baidu, 360, Tencent etc. are playing the increasingly important roles in people's lives. Most people are concerned about how profitable Internet companies are in the development process. So the research on the profitability of Internet companies will provide valuable experience to the development of other enterprises. A plenty of Internet companies in China have established their own unique profit models. The key to success or failure of the enterprise is whether it could find a profit model matching to itself. Therefore, profit model innovation can not be ignored as much as service innovation.

Compared with Internet companies, traditional enterprises also have their own unique profit model, but the difference from Internet companies is that the profit model of traditional enterprises is specific and realized under the basic framework of the industry. Only to find the right profit model and constantly innovating, it could to be successful.

Chinese cross-border e-commerce industry structure has taken shape, mainly focusing on export business, especially B2B business. In the B2B mode, Global Sources, Dunhuang, and Alibaba International Station Network have occupied a large share of the Chinese market. The export cross-border B2C model has also shown a rapid growth trend in recent years, and cross-border e-commerce has gradually begun to note. Under B2C model, the order of the world's AliExpress, Global Easy, and Lanting has also formed. The main target groups for exporting cross-border e-commerce are the low-end customers in developed countries such as the United States, Japan. The United States and the European Union are the most important markets, accounting for about 30%. In recent years, the market has gradually expanded to some countries in Russia, Africa and Southeast Asia, and maintained a high-speed growth trend.

In the process of cross-border e-commerce development in China, the following characteristics have been demonstrated. The scale of cross-border e-commerce transactions continues to expand, and the proportion of import and export trade continues to increase. The cost of circulation and the possibility of better access to foreign consumers help businesses to open up the market and achieve higher efficiency. According to statistics from the Ministry of commerce, in 2013, China's cross-border e-commerce transaction volume was 3.1 trillion yuan, accounting for 12% of China's total import and export volume. By 2017, China ' s cross-border e-commerce transaction volume was 8 trillion yuan, 22 percentage points increasing year-on-year, accounting for about 30% of China’s total import and export volume.

From the perspective of import and export structure, the proportion of imported cross-border e-commerce has increased and is expected to continue to grow rapidly. The China E-Commerce Research Center indicates that China currently has more than 2,000 cross-border platform companies, and more than 200,000 companies have used cross-border e-commerce platforms for cross-border trade. From the perspectives of the import and export structure of cross-border e-commerce, China's cross-border e-commerce is mainly exported, but in recent years, imports have developed rapidly. According to data from the China E-Commerce Research Center, in 2013, the proportion of e-books was about 88% in China's export cross e-commerce, and the proportion of imports was about 12%. In 2016, China's export cross-border e-commerce transactions amounted to 5.5 trillion yuan, accounting for 82% of cross-border e-commerce transactions. In the same year, the scale of cross-border e-commerce transactions was 1.2 trillion yuan, accounting for about 18%.

It was shown that in 2019, the scale of imported cross-border e-commerce transactions exceeded 3.0 trillion yuan, and the proportion increased to more than 30%. In general, online shopping is attracting more and more consumers.In this environment, imported e-commerce has huge room for development, especially Haitao, which is very attractive to young domestic consumers. It can be seen that for a long time in the future, China's cross-border e-commerce import share will maintain a rapid growth trend.

1.5 Research purposes

The purpose of this dissertation is to analyze the diversified profit model of Internet companies, and evaluate the profit model of Alibaba from the financial perspectives by using the global e-commerce leader Alibaba as the research object. Finally, this paper presents the enlightenment of this case to Alibaba and other Internet companies, and provides theoretical support for Internet companies. Different from the existing profit model of the traditional industry, Internet companies can maintain a good position in the market competition.

As the most representative company in the Internet, Alibaba's profit model and development model will have the practical implications for the entire Internet industry in China. This dissertation will enrich the research of Internet companies in China, especially e-commerce companies.

2. Trade model of E-commerce companies

2.1 Trade model concept development

The concept of trade model first appeared in the 1950s. As the technology development of the Internet, a number of companies has emerged, and research on trade models has gradually increased. By the end of the 1990s, the academic and business communities have begun to focus their research on trade models.

Regarding the definition of trade models, there are different opinions because of the different perspectives of different scholars. At the same time, due to the different development characteristics of enterprises in different periods, the definition of a unified and authoritative trade model had not yet been formed. Michael Morris (2003) summarized the study of results and perspectives of past scholars. He believes that the study of trade model definition can be divided into three aspects, economic, operational and strategic. Based on the research direction of Morris, Yuan Lei (2007) believes that the research on the definition of business model is actually a process from economy to operation and strategic integration.

The definition of the economic perspective mainly emphasizes how the enterprise obtains profit, which is the simplification of the profit model. The essence of its research is the creation process of the internal and external economy of the enterprise. Slywotsky and Morrison (1997) argue that trade models are strategies that enable companies to make a profit. Rappa (2003) proposes that the basic connotation of the trade model is the way in which companies conduct business operations and self-sustainment in order to make profits, thus clearly explaining how companies position and profit in the value system. Jim Muehlhausen (2016) suggests that the trade model is to a certain extent, a profit model that is the rules and ethics that business operations need to follow. Zhang Jingwei and Ma Dongjun (2009) analyzed the connotation of trade models based on three perspectives of enterprise value, they are value support, value creation and core value capabilities. The definition of operational perspective focuses on the management and operational processes of the enterprise, revealing how companies can create value through the integration of internal resources and the design of organizational structures.

Timmers (1998) believes that the trade model is actually a structural model of business operations, which mainly includes three components, product, service support and information flow. Through this model, the source of income of enterprise participants can be analyzed. Magretta (2005) argues that the business model is essentially a story that describes how the business works. The story involves the characters, motivations, and plots. At the same time, trade model is a series of companies that can improve value creation, serve customers and business operations participants, etc. Fang Zhiyuan (2012) believes that the trade model is to explain the interaction of its constituent elements through the business operation process, and then promote the enterprise to carry out structural restructuring and business process reengineering, and design a new trade model to create higher value.

The definition of a strategic perspective emphasizes the development strategy that companies have developed to achieve strong market competitiveness and sustainable development capabilities. Weill (2009) believes that the business model is actually a description of the relationship between the participating entities in the business activities, including users, partners, suppliers, capital flow, information flow and identification of the benefits that each participant can obtain. Su Tao (2009) said that trade model refers to the establishment of a good development strategy by integrating the relationship between external consumers and internal organization personnel to promote enterprises to fully utilize internal resources and external development opportunities. Wang Shouyang(2016) believes that trade models can be understood as a set of activities and structural logic about how to maintain their core competencies and obtain sustained profits.

Different from the traditional economy, the Internet economy is a new type of economy based on intelligence and technology. In the Internet economy, the enterprise profit model mainly explores how to use the Internet to maximize the multi-channel profit at the lowest cost. The products or services are highly time-sensitive and present a trend of scale, specialization and personalization.

2.2 Trade model elements introduction

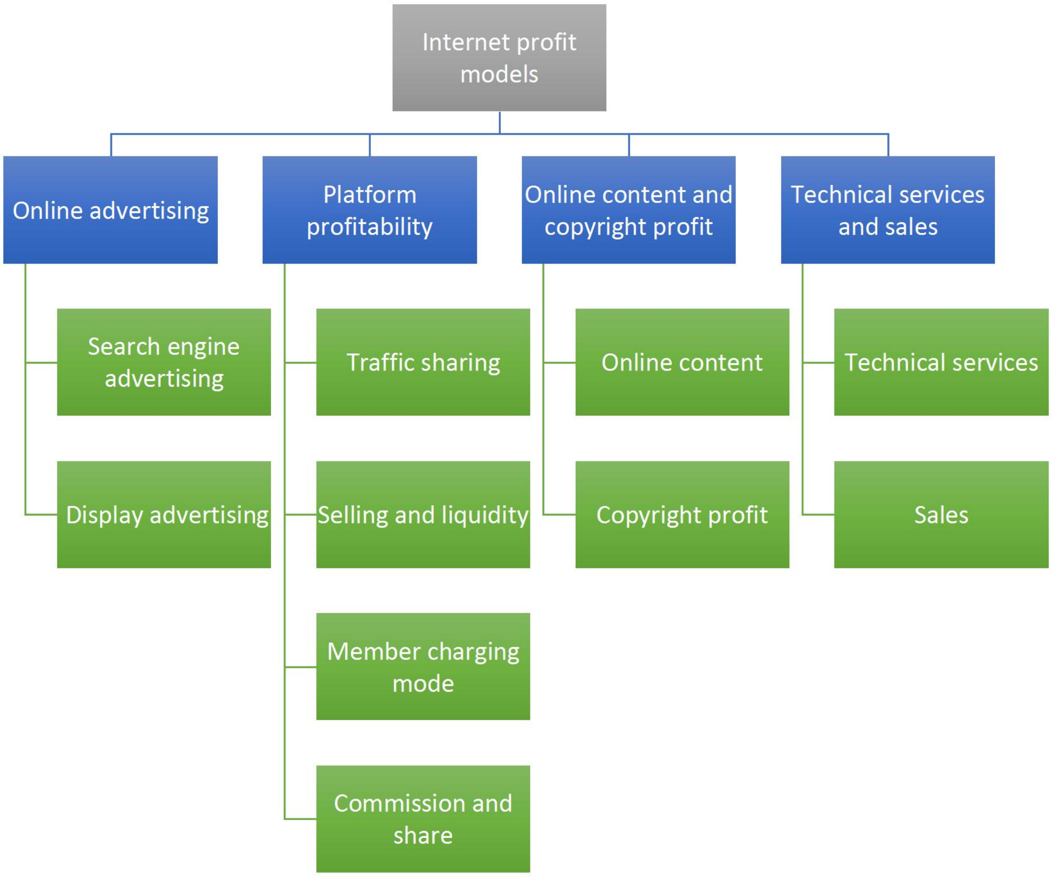
According to the different research backgrounds and research perspectives, specialists published their points on the trade models' constituent elements. Generally speaking, the academic views mainly include three elements, six elements and nine elements.

Ram Charan and Larry Bossidy (2011) believe that the trade model mainly includes three parts, internal and external status, activity situation and financial goals. Alt and Zimmermann (2001) attribute the elements of the trade model to six aspects, structure, mission, income, process, technology, and legal affairs. The structure is the foundation, the mission is the key. Chesbrough and Rosenbloom (2002) emphasize that the six elements of the trade model are market segmentation, value proposition, cost composition and source of income, status and competitive strategy in the value network, and value chain structure. Zhu Wuxiang and Wei Wei et al. (2012) also endorse the six elements of the trade model, but the factors are different, they are business system, profit model, resource integration capabilities, product positioning, enterprise value and cash flow structure.

Osteralder (2005) attributes the trade model of the enterprise to four levels and nine components. The four aspects include customers, infrastructure, financial capabilities, products and services. The customer level covers customer segmentation, channel access, customer relationship, and the product (service) level reflecting the value proposition that the enterprise wants to deliver to the customer. The key business, core resources,, financial level and important cooperation can make a group of the infrastructure level.

2.3 Classification of profit models of Internet companies

In the early stage of Internet development, due to insufficient experience and insufficient market competition, enterprises' perceptions of profit model and profitability were relatively poor. Early earnings were mostly spontaneous profit models. The spontaneous profit models have the characteristics of ambiguity, privacy and lack of flexibility. As the Internet market enters a stage of full competition, the company's profit model also moves from spontaneous to conscious profit model. The company has designed its own profit model from the beginning and adjusted according to the actual market conditions, flexibility and targeted features. At present, the Internet profit models formed consciously as following, online advertising, platform profitability, online content and copyright profit, technical services and sales.



Profit model 1　Online advertising

Advertising is a way to carry certain information to society in an open and broad way, based on specific needs and through a variety of media or public opinion channels. Multimedia ads. text ads, image ads, video ads, etc. are classified from the carrier of the advertisement. Compared with TV media and traditional broadcast, Internet advertising has a wider scale and more portable forms of advertising, the advertising could be accurately positioned, the efficiency of delivery is also higher. Therefore, it is a profit model widely adopted by Internet companies to obtain revenue by providing online advertising services to advertisers.

（1）**Search engine advertising**

Search engine advertisements are divided into keyword advertisements and alliance advertisements, which are based on consumers' relevant behaviors on the Internet (active search keywords or browsing professional websites), which are precisely targeted and promoted. The benefits of advertising is stronger.

The keyword advertisement is the website link advertisement presented on the search result page, such as the bidding ranking model of Baidu search (a Chinese search engine is that promotion information of the advertiser with higher bid is ranked higher in the corresponding keyword search result). The common charge for type ads is to charge for the promotion effect.

The alliance advertising model is that the advertising demander needs the special online advertising platform to advertise. The platform plays a role of technology detection and matching, it displays the advertisements on the platform member website with which it cooperates (usually it is a small and medium-sized website), the charging mode is price sharing such as CPM/CPC/CPS/CPA. The typical example of affiliate advertising is Sogou and Baidu online advertising alliance.

（2）**Display advertising**

Display ads are that appear directly in the form of images, videos and so on. The brand advertisements are provided by the information providing websites for customers, the rich media advertisements, and the video advertisements, the profit model is CPM/CPTM.

Since display ads are not targeted at a specific group of people, it only advertises on Internet products or platforms, the audience of the ads is often passive, and the difference with traditional media ads is mainly advertising place. Both have the low precision, and the benefits of advertising are very limited.

Profit model 2 Platform profitability (C2C and B2C models)

Platform profit refers to the company's user resources accumulated in the early stage of its platform to attract third parties. The platform plays the role as bridge of connection between users and third parties, bringing certain traffic and transaction volume to third-party enterprises. Profit models in this model are traffic sharing, selling and liquidity, member charging and commission and share.

(1) Traffic sharing

The charging method of traffic sharing is more common in the navigation portal, which can direct its own traffic to designate third-party enterprises.

（2）Selling and liquidity

Selling and liquidity is Internet sales, referring to a profit model that sells its products, data, information or services through the website. It is mainly divided into two sections, services of physical products, sales and services of network virtual products.

（3）Member charging model

The membership charging model relies on different membership fees to obtain revenue. The most typical one is Alibaba's fee-based service. By taking a large amount of information of the company's needs as a bargaining chip, it provides this information only to companies that have been certified by TrustPass, it has attracted more companies to participate in its TrustPass certification, then increased the amount of fees to be paid and obtained profits. In addition, some important services of certain talents, e-books and other websites are only open to paying users.

（4）Commission and share

The commission model for Internet products usually refers to the rewards that platform products receive for other companies selling. It used e-commerce and group-buying platforms, all of which are commissioned by providing a platform for merchants to enter, such as Taobao, eBay and other third-party retail platforms (C2C), attracting many sellers to operate on their own platforms, and such as the online community (B2C) created by Alibaba, Jingdong, Amazon, etc. The services in the sales model are more in line with the scope of the service industry. They are intangible and differentiated.

Profit model 3　Online content and copyright profitability

This profit model refers to the profit obtained through the paid of exclusive content and copyright resources. For example, news websites obtain exclusive copyrights for news by collecting, producing and publishing, and authorize such copyrights to third parties, thereby realizing their information resources and technologies. Information and statistical analysis platforms obtain income according to transferring of statistical analysis data and professional knowledge information such as Baidu Index. Video websites use the means of copyright distribution of popular video resources and homemade exclusive copyright. Self-made exclusive copyright is relatively easy to understand. Copyright distribution refers to the profit transfer or resale of the exclusive broadcast rights purchased from third parties, such as Tencent video.

Profit model 4 Sales and transferring of technical services

The essence of this profit model is the realization of the Internet high-quality technical resources. A typical Internet company that adopts this profit model is Baidu, which generates huge profits by selling its own search engine technology and services to third-party SMEs. Baidu has earned revenue through the sale and transfer of technology, which enables better R&D and operation. SMEs directly acquire mature and advanced technologies through direct purchase, it could reduce R&D costs and avoid risks in the R&D process.

2.4 Summary

The profit model of the Internet requires the constantly understanding about the market demand to combine its own advantages, so constructing a diversified profit model should be suitable for itself. The profit model of the Internet belongs to a typical dynamic organic system. It is the profit model that maximizes the profit of the enterprise by leveraging the competitive advantage of the enterprise.

In real life, internet products often have more than one profit model. Taking Sougou Music as an example, you can see an advertisement when open this APP (online advertising mode). The single song download belongs to the purchase of music data mode, and the member privilege (member charge mode) is free to download. An excellent profit model is that the value creation activities of enterprises are very rich and meticulous, each part supports and promotes each other, finally makes the company successful.

3. Introduction of Alibaba, history and development

Alibaba Network Technology Co., Ltd. was founded in 1999. The team led by Yun Ma in Hangzhou, Zhejiang, China. Its goal is to offer a just and open competitive environment on the Internet and let more small businesses use Alibaba's platform to realize their business development and own technological innovation, thus enhance their market competitiveness.

Alibaba's own business operations and coverage are extremely extensive, in addition to its ability to leverage the resources of the associated companies to promote the company's long-term strategic goals. Up to now, Alibaba and its affiliates have core businesses such as Taobao, AliExpress, Tmall, Juhuasuan, Ali Mama, Alibaba International Exchange, 1688, Aliyun, Ant Financial, and Rookie Network.

3.1 Alibaba's philosophy

Yun Ma believes that e-commerce is a global business based on the Internet, it should be a name that everyone knows well, so he named the company Alibaba. Its name means “opening the door of sesame”, which is intended to open the door to the wealth of small and medium-sized enterprises.

Alibaba has always adhered to the core mission of “making the world an easy business”, it insists on the values of “customer first, teamwork, embrace change, integrity, passion and dedication”. Alibaba hopes that it can provide a happy and stable working environment for its employees, continuously improve the happiness index of its employees.

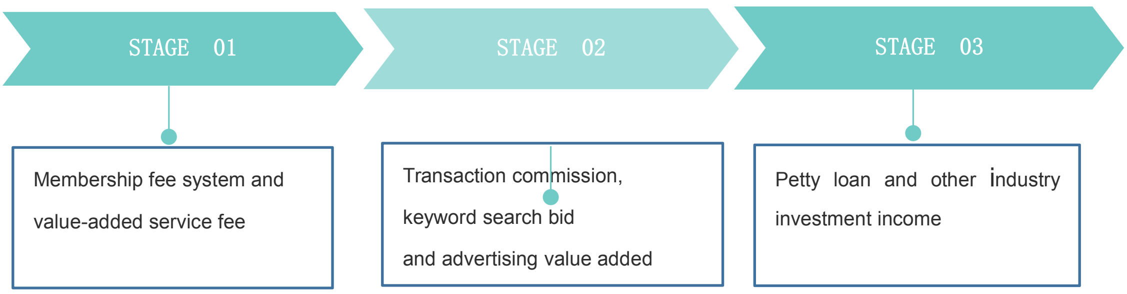
3.2 Alibaba stage profit points

Alibaba's profitability is relatively comprehensive, we can divide its profit stage into "B2B stage", "Taobao stage" and "Alipay stage". The first stage profit point is membership fee and value-added service fee. Alibaba under the B2B model is responsible for the information mediation of the “online trading platform”. At this stage, it only provides information support for both parties to the transaction, and its profit is concentrated on the membership dues. Alibaba divides its paid members into Chinese suppliers and TrustPass members according to the type of trade, which corresponds to foreign trade and domestic trade members. At present, the membership fee of Chinese suppliers is 60,000-80,000 yuan ($8800-$11800) per year. The service provided by Alibaba for TrustPass members is to present the integrity rating of the evaluation agency and its transaction record in Alibaba to the registered members, so that the TrustPass members can get the purchasers faster. In 2016, Alibaba has more than 300,000 paid members, 11 million registered buyers, and 27.6 million registered users. It is the largest B2B e-commerce website in the world. In addition to the above, Alibaba's services to Chinese suppliers and TrustPass members include priority publishing rights on its platform, which can help users find potential customers accurately and efficiently. It can also provide value-added services for users according to their needs.

The second stage profit point are transaction commission, advertising value added and keyword search bid. Around 2003, Alibaba began to formally enter the Taobao stage of B2B and C2C. At the beginning, it used the same free charging policy as Alibaba.com, but it was subjected to the fierce competition environment at that time. In addition, Taobao’s services were mostly for SMEs or individual merchants, and they were brought after paying huge contributions. A lot of financial pressure has come. If it insists on adopting such a charging model, it will greatly reduce the market competitiveness of Taobao, and eventually it will be eliminated by the market. Therefore, Taobao's charging model was quickly changed to “transaction commission system”, but for some sellers with good business conditions and high profitability, the membership charging system was still used. This model has achieved excellent results and effectively attracted a large number of SMEs and individual merchants in Taobao, which started Taobao's brand reputation and significantly strengthened market competitiveness. On this basis, Alibaba took the lead in launching the “keyword search bidding” charging method in 2005. Because Taobao's model determines that consumers mostly find their own products in countless merchants and searching products by keywords, if merchants want to make a product ranking higher in search results or automatically recommending products to consumers, it needs to pay Alibaba for the service, which brings huge benefits to Alibaba.

The third stage profit point are petty loan and other industry investment income. Alibaba decided to formally enter the bank loan field, the premise of its march is the great success of Taobao business and Alipay's funds to the trading parties, both of them have brought a large number of potential customers and huge liquidity to Alibaba. Alibaba successfully grasped the opportunity of technological development, it has achieved great technological advantages in the fields of cloud computing. In 2010, Alibaba began to offer loans to medium-sized and small enterprises. In 2013, it officially launched Yu'E Bao, which provided users with higher interest rates than banks to attract users to deposit funds in Alipay, and introduced Tianhong Fund's wealth management products. Users can purchase wealth management products online.

Alibaba stage profit points



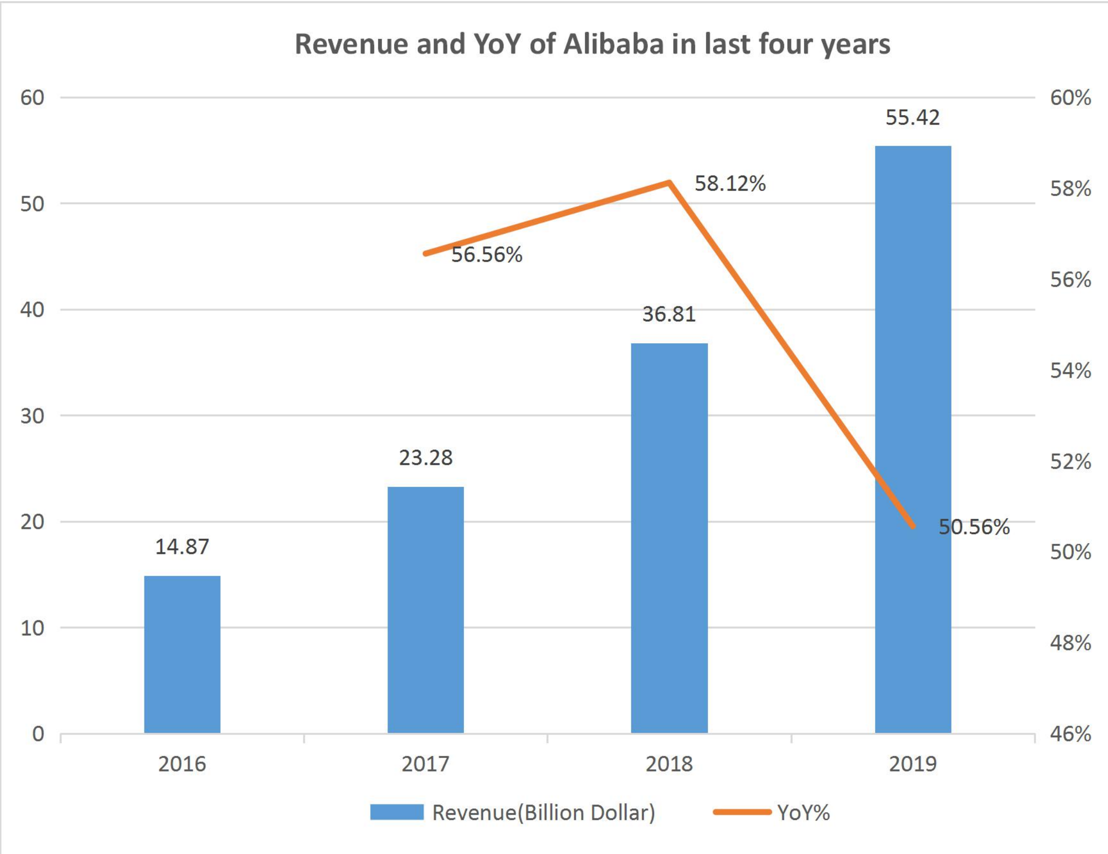
3.3 Profit target - Chinese and foreign merchants

At the beginning of its establishment, Alibaba has profoundly recognized its position, domestic SMEs and multinational companies trying to enter the Chinese market, which are mainly determined by Chinese special market environment. Unlike the mature US market economy, more than 90% of China's enterprises are small and medium-sized enterprises, and their base cannot be underestimated. Therefore, Yun Ma is extremely keen to position the company to help SMEs succeed. Alibaba deeply recognized the globalization trend of economic development in world, then firmly grasped this opportunity, promoted the introduction of foreign capital and made domestic enterprises global.

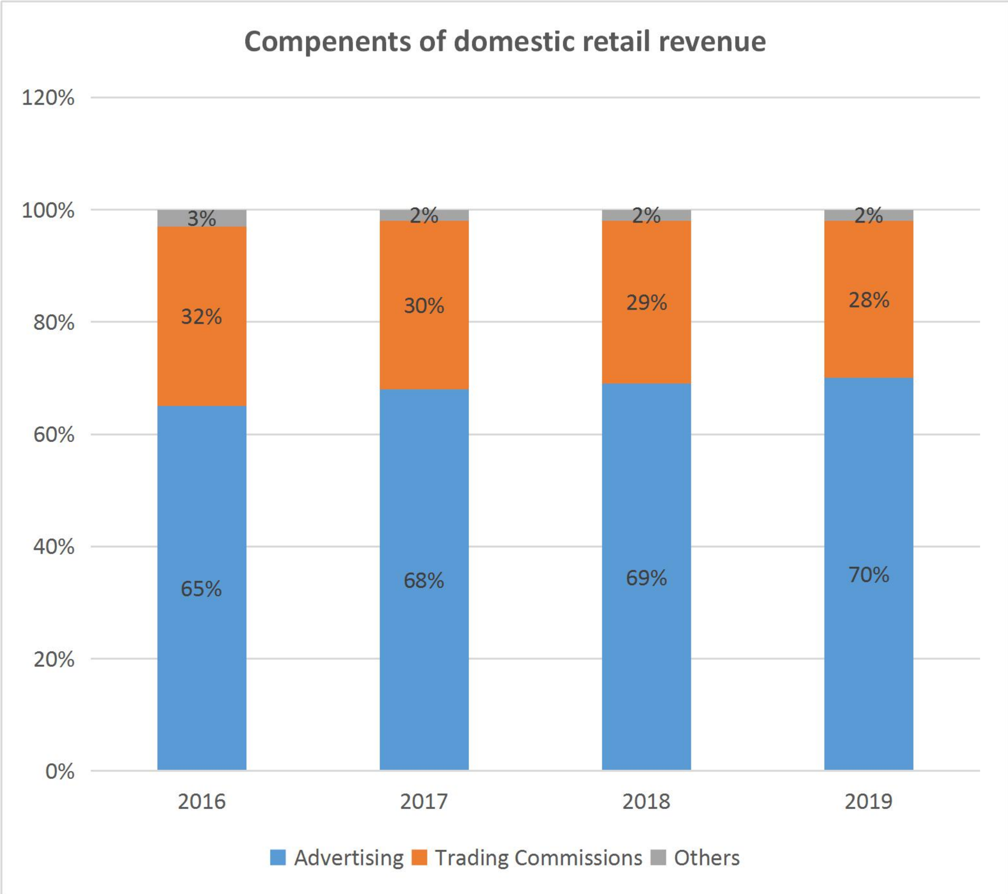
Alibaba is the largest e-commerce platform in China. Since FY17, Ali has divided its business into e-commerce business, cloud computing business, digital media and entertainment business and financial services.

(1) E-commerce platform business is the main source of profit

From the perspective of income model, there are mainly advertising marketing expenses,membership fees, trading commissions and value-added services, etc., among which advertising and commission account for about 80% of total revenue. From the perspective of income composition, the majority of e-commerce platform revenue is from domestic.



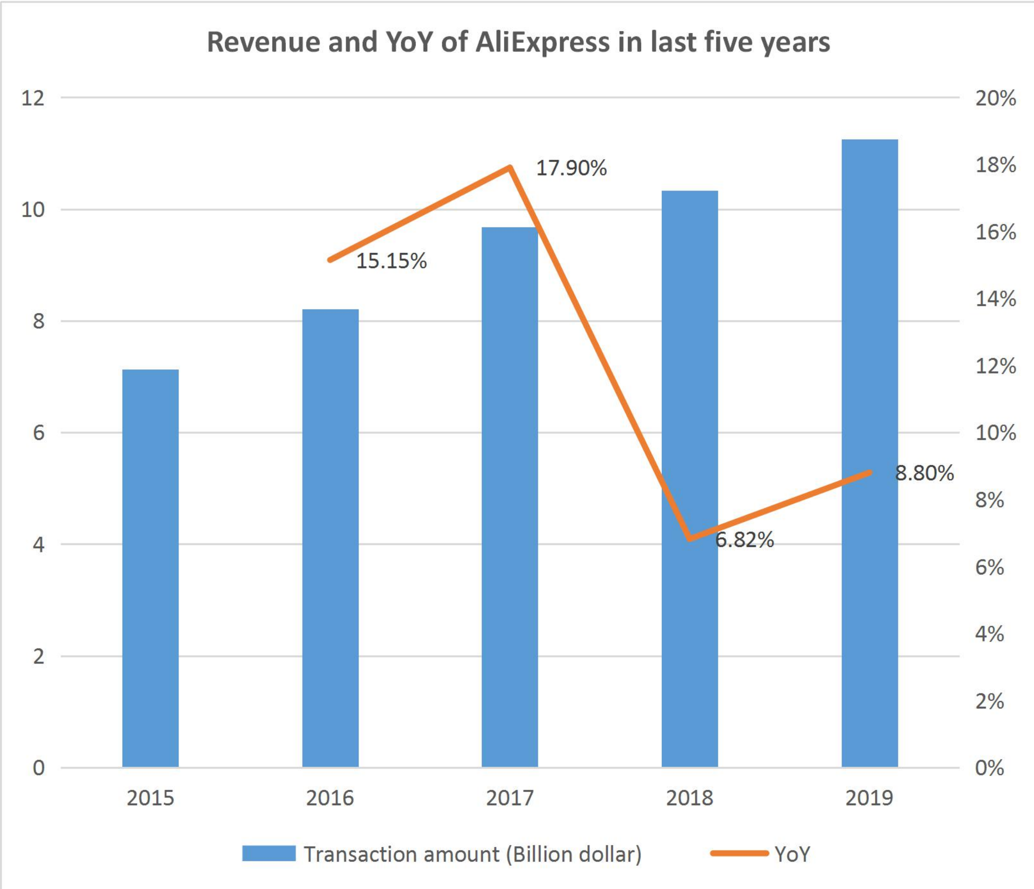
Alibaba's core e-commerce business revenue is 70% from advertising and marketing services, and 30% from trading commissions. Domestic retail platforms mainly include Taobao and Tmall. When merchants want to open stores and use Ali's marketing advertising service, Ali will charge advertising fee to them. Advertising revenue accounts for about 65%-70% of domestic retail revenue as the following picture shown.



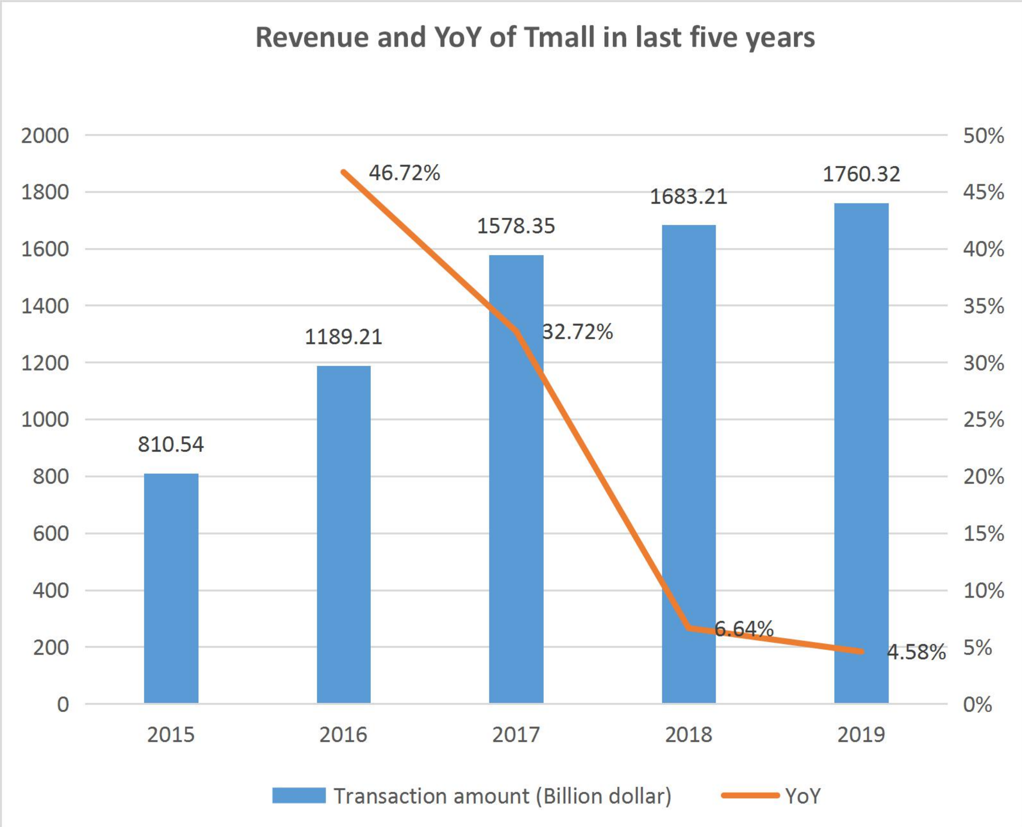
For the sellers of Tmall merchants and Juhuasuan platforms, Taobao will draw a certain percentage of commission based on the transaction amount, the commission rate is about 0.4-5%, and the commission income accounts for about 30% of the e-commerce business. In addition, there are some other expenses, such as the usage fee of Taobao Wangpu, but the proportion is very small, about 2 percent.

Advertising is the main profit source for e-commerce platforms. Alibaba's marketing services and advertising could be divided into four types, Taobao, P4P Express, Tmall search page bidding ranking and buyers keywords search. The goods with the keywords will show in the Taobao Express booth. When the buyer clicks on the promotion product, the fee deduction will be made. The advertisements display position mostly concentrated on Tmall, Taobao homepage and its sub pages, with the help of focus map, text chain, banner and other means to the user, there are brands advertising, diamond booths, etc., which are suitable for sellers with higher demand, generally cost per click.

Alibaba's overseas income has maintained a relatively stable trend, mainly from the international wholesale platform Alibaba and the international retail platform AliExpress. At present, the revenue growth rate of these two platforms has slowed down.



In addition to charging advertising fees to merchants, Alibaba charges trading commissions to Tmall merchants on a pro rata basis, with a deduction rate of 0.4-5% of the transaction amount, and an annual fee for the Tmall Commerce Chamber for 10,000 to 60,000 yuan ($1,470-$8,800).



(2) Cloud computing has become the new source of profit growth for Alibaba

"In the cloud" is the future choice trend of enterprises. Compared with traditional IT services, cloud computing services do not require large-scale investment in hardware facilities, and customers can purchase flexibly on time. Overall, resource utilization is higher with low cost, in addition, cloud computing companies can provide innovative products such as big data gathering and analysis.

Public cloud market is growing fast in China, it has a huge market potential. Cloud computing industry was in development stage during 2011-2013 in China. From 2014 to 2015, it was the stage of business popularization. As a representative enterprise of the domestic cloud computing industry, Alibaba Cloud's business revenue grew rapidly during 2015-2019.

(3) All-round development of logistics, finance and media

Ali did not have a self-built logistics system in the early period. The logistics link was undertaken by a third-party express company. Compared with No. 1 Store, Jingdong, Suning and other self-built logistics e-commerce in China, Ali gave customers a relatively poor experience in logistics. For example, Jingdong can rely on its own warehousing and logistics network throughout to achieve the next day delivery, but Ali couldn't achieve such post speed relying on third-party logistics. Therefore, self-built logistics set up an urgent need for Alibaba. In 2013, Ali and Intime Group, Fuchun Group, Fosun Group and SF Express jointly established a Cainiao network to create value for them.

(4) Financial services

Alibaba's Ant Financial Services Group was founded in 2014, its business mainly covers payments, wealth management, lending, insurance. There are nine financial business parts including Ant Financial Group subordinated Alipay, Yu'Ebao, Lucky Fortune, Ant Small Loan, Ant Credit Ants, Internet Merchants Bank, Ants Flower and Ant Financial Cloud providing online payment services and other financial services to consumers including wealth management, lending, insurance and credit system. In addition, Ant Financial also invested in Chaoyang Yongxiu (private database, equity 20%), Hangsheng Juyuan (financial securities for the core database, equity 19.1%), Tianhong Fund (public fund, 51% equity) and overseas payment platforms Paytm and Ascend Money. In FY2017, Ant Financial (including Paytm and Ascend Money) has more than 630 million active users worldwide. Ant Jinfu contributed a total of 4.9 billion yuan to Ali in three years. The main source of income for Ant Financial is Alipay. Other income includes interest generated by small loans (borrowing, corporate loans), profit dividends generated by wealth management sectors (such as Yu'E Bao), fees collected by ants Jubao's agency sales fund, commissions for consignment insurance business.

3.4 Profit strategy

Alibaba has been able to grow into a leader in domestic and global Internet companies in ten years, its founding, and its development model and competitiveness are worthy to study. Alibaba's market positioning is very precise, it strictly adheres to the pragmatic concept. Step-by-step approach is for the company long-term development. The expanded dynamic profit model has accumulated a wealth of customer resources, it introduced the means of payment at the right time, thereby discovered the new profit opportunities. At the same time, Alibaba used its powerful information network to provide faster support services for the main e-commerce business.

Alibaba's positioning choices for users are also very precise. They are not simply positioned for the purpose of pursuing profits. Instead, they are based on Chinese actual national conditions and future economic development trends, positioning their profit sources on large-scale SMEs and foreign companies trying to enter Chinese market. In the early days, in order to reduce the barriers to entry for merchants, Ali introduced the free membership, so that market competitiveness has been greatly improved. In addition, Alibaba's forward-looking acquisition of promising Internet companies helped them improve their systems.

4. Financial evaluation of Alibaba's profit model and compared with Amazon

Profit is the ultimate goal of business operation. Therefore, the best way to measure the profit model of a company is to analyze its profitability, select the competitors in the same industry to compare, collect cash flow from both to evaluate which company has a more competitive advantage. It can start from two aspects of income and cash flow, and uses DuPont analysis method to analyze the profit status and cash flow of Alibaba systematically. The following analysis is based on the data published by the company in fiscal year 2013-2019.

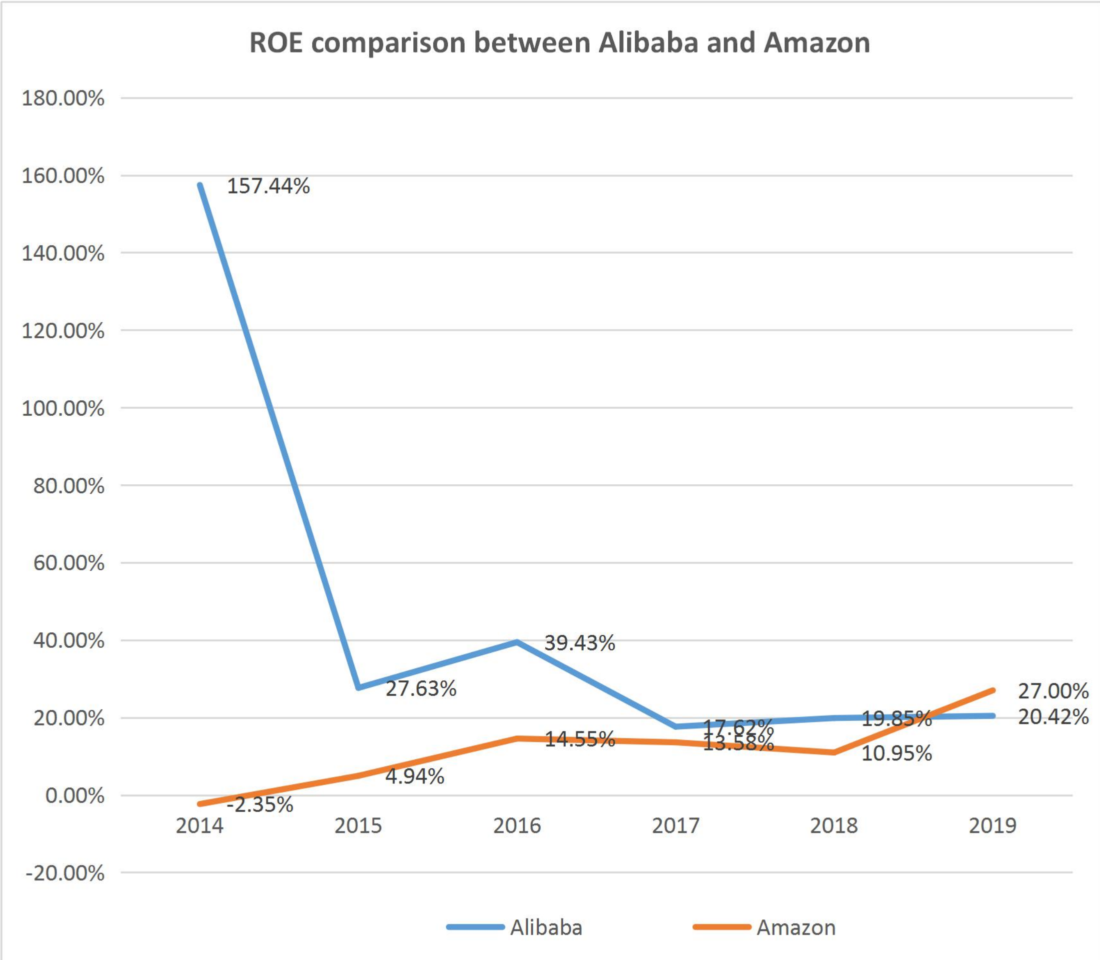
4.1 Comparison analysis between Alibaba and Amazon

4.1.1 Alibaba and Amazon overall profit analysis

Since the return on equity (ROE) is the starting point for comprehensive analysis of the company's financial performance, it can be an intuitive evaluation of the overall profitability of the company. In addition, it can be more accurate to present the efficiency of corporate finance, asset operation and investment. It is the fundamental guarantee for maximizing the owner's equity. The improvement of ROE is of great significance. Amazon is Alibaba's strong competitor, so financial indicators can be compared and analyzed between Alibaba and Amazon. The ROE formula is as following,

ROE=Net Profit / Average Shareholder’s Equity

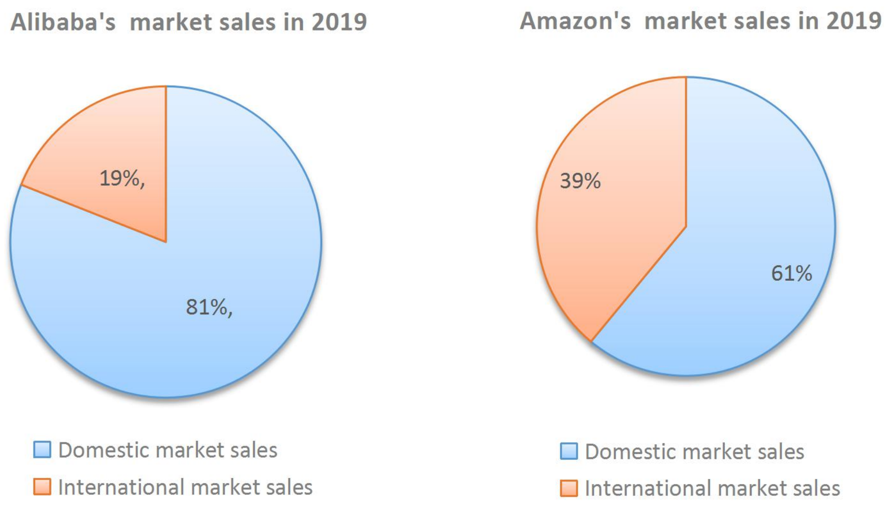
In recent years, it has been relatively flat. In 2014, Amazon’s ROE fell to -2.35%, then it went relatively stable.Compared both, Alibaba's shareholder equity yield is much higher than Amazon. Until 2019, Amazon’s ROE was risen sharply beyond of that of Alibaba. In general, since Alibaba's listed, its profitability has stabilized.



4.1.2 Internationalization level comparison between Alibaba and Amazon

While focusing on domestic investment, Amazon and Alibaba are also actively expanding overseas markets in terms of competition. In the internationalization index, when we measure the internationalization level of Amazon and Alibaba, we mainly measure by the FSTS (Foreign Sales to Total Sales) indicator.

As shown in figure, in 2019, Amazon's international market sales accounts for 39% of its total sales, while Alibaba's international market sales accounted for only 19%. This shows that Amazon's internationalization level is higher.



In terms of the layout of overseas markets, Amazon currently dominates both North America and Europe, while Indian, Australia and Singapore markets are actively deployed. The strategic approach of South Asia is the same as that adopted in the United States, that is establishing a full industrial chain to promote the development of e-commerce business.

Alibaba is the leader in China's e-commerce market, occupying a dominant position in China and opening in Southeast Asia. Ali extends its business to Malaysia and many places like Singapore through Lazada investment. Not only that, Alibaba is also marching into the high-end market, with the help of Detroit in the United States, and using summits in Canada to enhance their brand influence, thereby attracting more international brands to settle in China market.

4.1.3 International layout comparison between Amazon and Alibaba

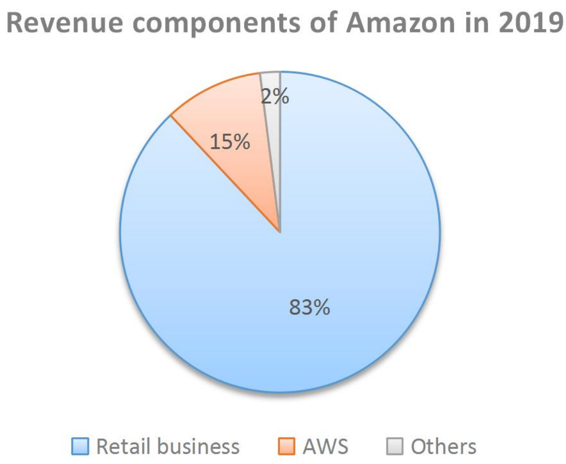
The divergence of Chinese e-commerce market and e-commerce business in developed countries is inevitable. This is the embodiment of the law of market development. In this regard, e-commerce companies are actively seeking diversification in business. For instance, in Amazon, the services currently offered include online services (AWS) online retail store services, digital media, and logistics. At present, Amazon Cloud Services has taken the lead in the world, and at the same time, it has begun to enter the film industry.

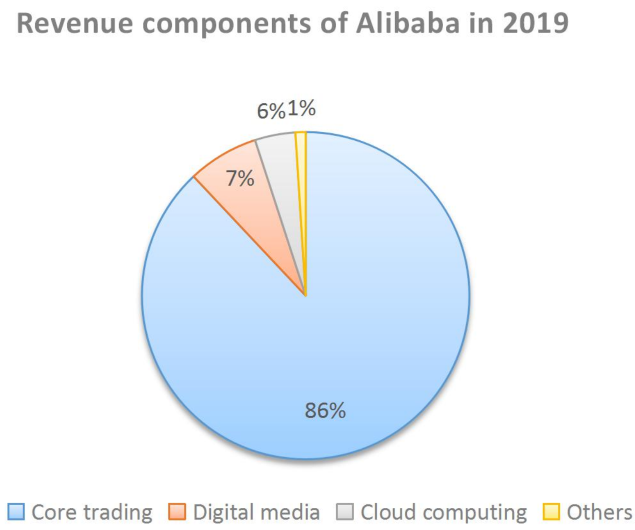
Ali's development path is similar to that of Amazon. Ali develops digital media and entertainment business not only B2B and B2C, while laying out on cloud computing, and hatching ant finance from Alipay, deepening in the financial field. It can be seen that Alibaba's business layout is wider than Amazon.

Amazon's international market sales accounted for 39% of total sales, showing that it is more international. Amazon mainly adopts the self-operated mode. The services provided by Amazon are very convenient. The prices of products sold in Amazon is lower. At the same time, the company has achieved rapid development, and it is also inseparable from its technical capabilities and support for data processing capabilities. It has strengthened its brand to a certain extent, so that the synergy effect among various markets is stronger. Ali uses an open platform model that allows millions of buyers and sellers to trade.

Secondly, according to the analysis of the postage, short delivery time, purchasing behavior, and ease of return are recognized as the most important keys among 70% of consumer during online shopping. So logistics is a very important factor in cross-border shopping transactions. For Amazon, it has its own professional logistics and has established it around the world 123 operations centers with their own warehouses. By using a series of advanced logistics facilities such as barcodes, cloud computing, and GPRS positioning systems, Amazon has not only improved efficiency, reduced costs, but also greatly increased customer satisfaction. In terms of logistics, Alibaba established the rookie network in 2013 and cooperated with the multinational post to arrange international logistics. However, because the nature of the rookie network is integrated from logistics resources, the logistics is undertaken by other companies, and the product business is solved by the merchants, Alibaba plays the role of a trading platform provider. Under this model, there will still be a gap to Amazon in its service quality.

Finally, developed cloud computing services, strong technical support, AWS service, not only optimized its own platform construction, but also transformed its hidden infrastructure resources, including massive data, supply chain and logistics platform. According to 2016 data released by research firm Synergy Research Group, AWS accounted for 31% of the global cloud market, with a clear first-mover advantage. Its FY19 financial report showed that revenue from AWS was $7.8 billion, accounting for 15% of total revenue. According to data released by Alibaba, cloud servicevenue reached 1100 million dollars, accounting for 6% of total revenue. It can be seen that the current reglobalization of Alibaba Cloud is still in its infancy compared with Amazon AWS. In the global market, the influence of Alibaba Cloud service brand is still lower.





4.1.4 Internationalization strategy comparison between Alibaba and Amazon

Alibaba's internationalization strategy is mainly through acquisition, investment and strategic cooperation, and investment is the main method. Alibaba officially launched AliExpress in April 2010 and started to enter the e-commerce cross-border service market, providing support for Chinese exporters to directly contact with global consumers. In August of the same year, Alibaba Group acquired suppliers Vendio and Auctiva to formally enter the US e-commerce service market.

In November 2010, it announced the acquisition of Datong. In addition to the acquisition, because of the lack of experience in foreign markets, Ali is more inclined to hold local companies through investment. For example, in the Southeast Asian market, Ali has become the actual controller of the local e-commerce Lazada through continuous strategic investment. In terms of logistics, Alibaba has cooperated with Australia Post and Brazil Post to develop its globalization strategy. In terms of payment, Alibaba focuses on promoting the globalization of the layout through investment cooperation and strategic cooperation. The comparison of Amazon and Alibaba is as following table.

	Amazon	Alibaba
Operating mode	Self-operated mode, open flat station	Open platform model
Business Category	B2B,B2C, logistics, cloud services, digital media	B2B, B2C, logistics, payment, cloud computing, film and television, entertainment
Logistics Services	Self-built logistics system, charging bundled fees	Self-owned logistics and third-party logistics combination
Profit model	Direct sales income + virtual store rental fee + fund settlement income + advertising fee	Advertising fee + Alipay + value-added service fee
Major international markets	North America, Europe, Asia, etc.	Southeast Asia, Latin America, Eastern Europe,etc.
Internationalization strategy	Merger, investment	M&A, investment, strategic cooperation
Overseas market entry method	With Amazon brand to enter	local companies share controlling, localization

In short, Alibaba's strategy of internationalization tends to adopt investment methods to achieve rapid access to local markets, so that the role of localization can be fully utilized. However, its disadvantage is reflected in the lack of synergy between the various markets, it couldn’t increase the brand influence in the world.

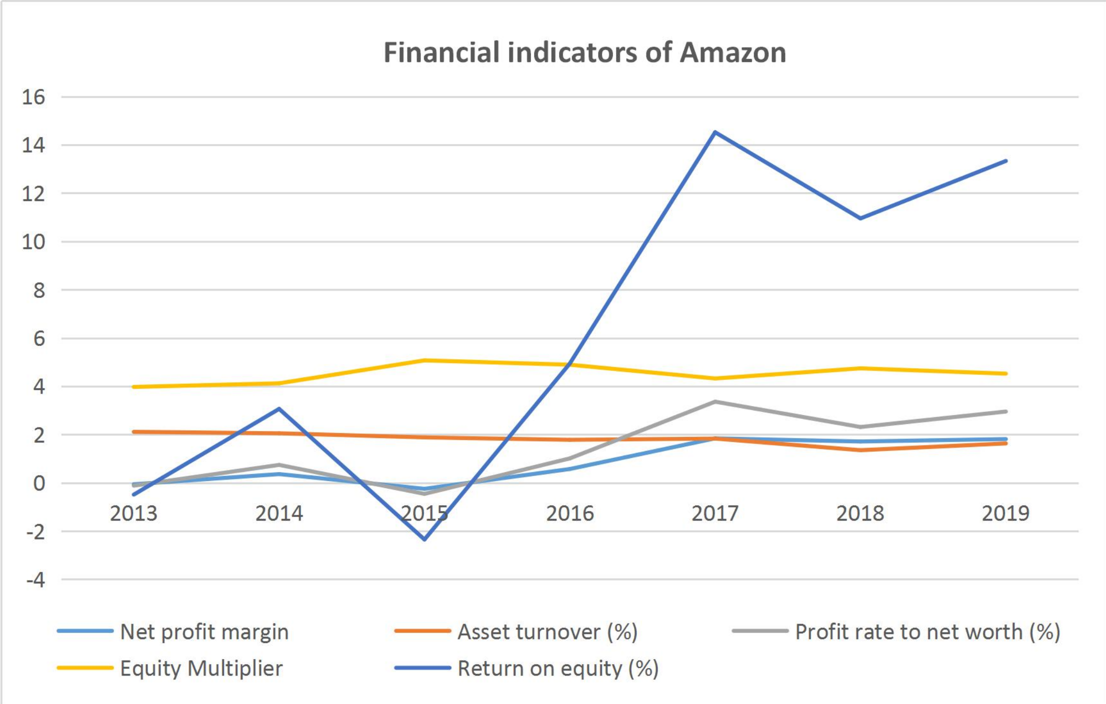
Amazon is different, mainly adopting the acquisition method. Its advantages are reflected in the brand aspect, the user physical examination is more similar, and the synergies between the markets are very strong, but In this way, the entry will have a corresponding impact on the launch of the localization function. According to the theory of internationalization, the basic theory of resources, enterprises choose the way of internationalization. If mergers and acquisitions can integrate the enterprise resources of both parties, thereby creating greater value for the enterprise and improving the core competence of the domestic enterprise, the enterprise should give priority to the acquisition method. Therefore, each company should adopt the appropriate global strategy and corresponding entry theory according to its own characteristics.

4.2 Analysis on Alibaba's profitability with DuPont according to financial indicators

（1）Shareholder equity return rate

Analysis of Amazon's return on equity and influencing factors are as following,

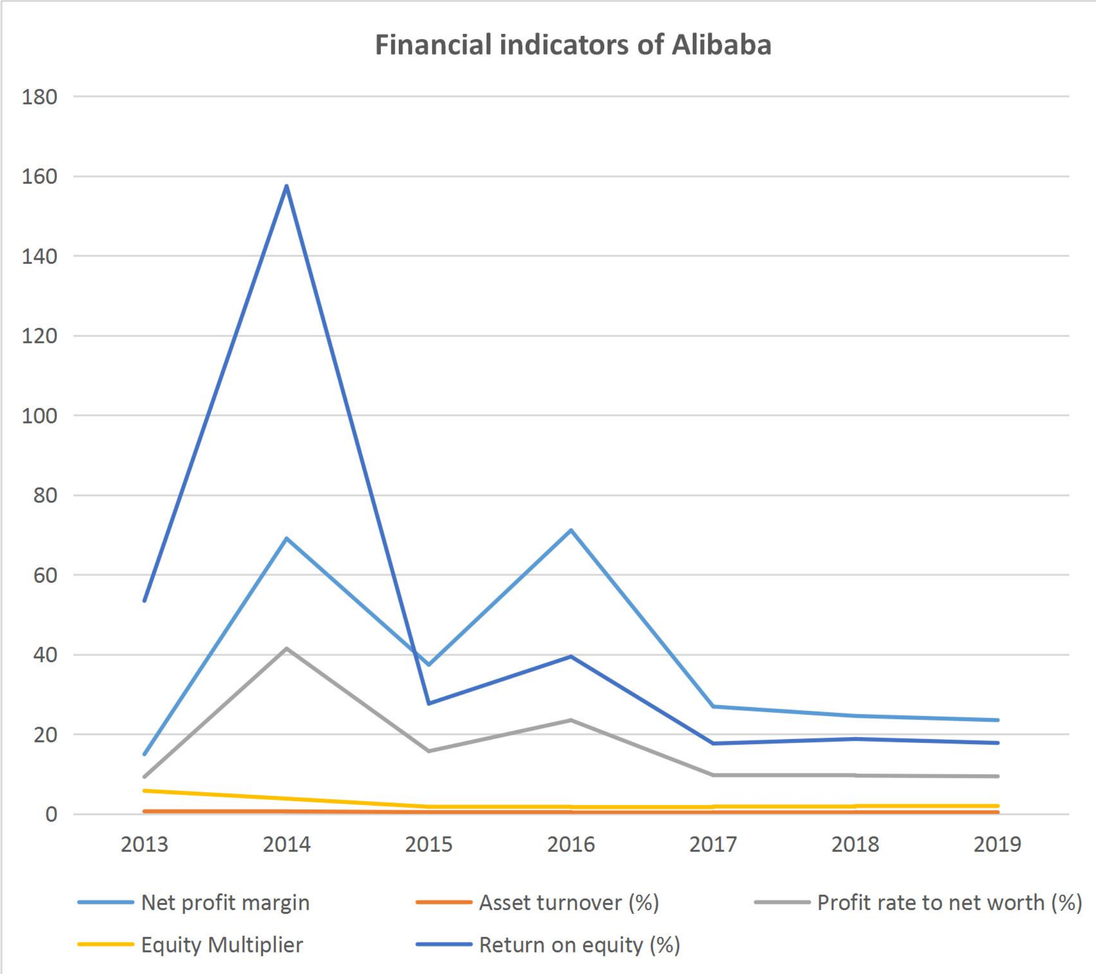
Year	2013	2014	2015	2016	2017	2018	2019
Net profit margin	-0.06	0.36	-0.25	0.57	1.84	1.71	1.81
Asset turnover (%)	2.11	2.05	1.88	1.78	1.83	1.35	1.63
Profit rate to net worth (%)	-0.12	0.74	-0.46	1.01	3.36	2.31	2.95
Equity Multiplier	3.97	4.12	5.07	4.89	4.32	4.74	4.52
Return on equity (%)	-0.49	3.06	-2.35	4.94	14.52	10.95	13.33



There are negative in 2013 and 2015 for ROE. Since 2015, ROE is getting bigger. It means the shareholder equity could be better. From 2016 to 2019, Amazon's profit rate to net worth increased from 1.01% to 2.95%. Its equity multiplier is larger, it is almost maintained around 4.5. Financial risk is large.

Analysis of Alibaba's return on equity and influencing factors are as following,

Year	2013	2014	2015	2016	2017	2018	2019
Net profit margin	14.93	69.05	37.38	71.12	26.89	24.54	23.49
Asset turnover (%)	0.62	0.6	0.42	0.33	0.36	0.39	0.40
Profit rate to net worth (%)	9.26	41.43	15.7	23.47	9.68	9.57	9.40
Equity Multiplier	5.77	3.8	1.76	1.68	1.82	1.96	1.89
Return on equity (%)	53.42	157.44	27.63	39.43	17.62	18.76	17.77



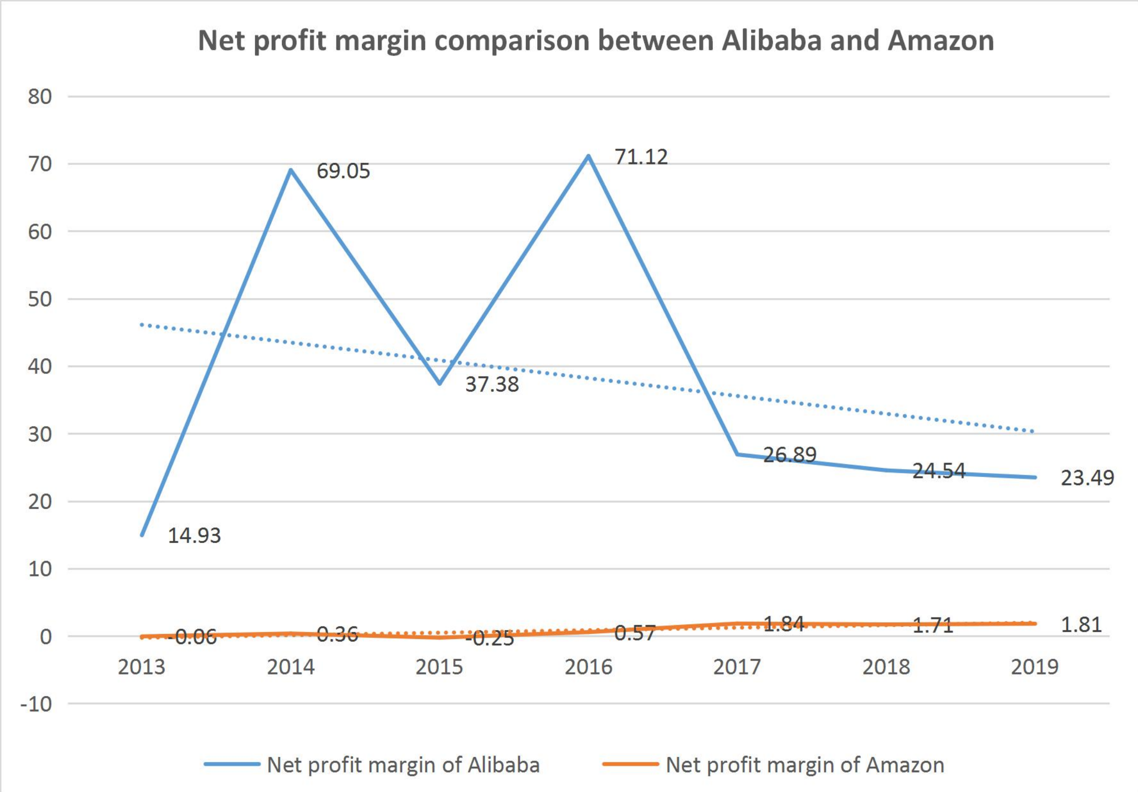
The table lists Alibaba's 2013-2019 return on equity and its three core influencing factors, net profit margin, asset turnover and equity multiplier. In 2013-2014, Alibaba's profit rate to net worth increased from 9.26% to 41.43%. In 2014-2019, it declined firstly then increased. Alibaba's equity multiplier has been maintained at around 1.7 since 2015, it has a better controlling with the financial risk level.

（2）Analysis on net profit margin

Alibaba's shareholder equity yield is much higher than that of Amazon because it is determined by net profit margin and equity multiplier. From the table below, Alibaba's net profit margin is much higher than that of Amazon during the 2013-2019.

Net profit margin comparison between Alibaba and Amazon is as following.

Year	2013	2014	2015	2016	2017	2018	2019
Net profit margin of Alibaba	14.93	69.05	37.38	71.12	26.89	24.54	23.49
Net profit margin of Amazon	-0.06	0.36	-0.25	0.57	1.84	1.71	1.81

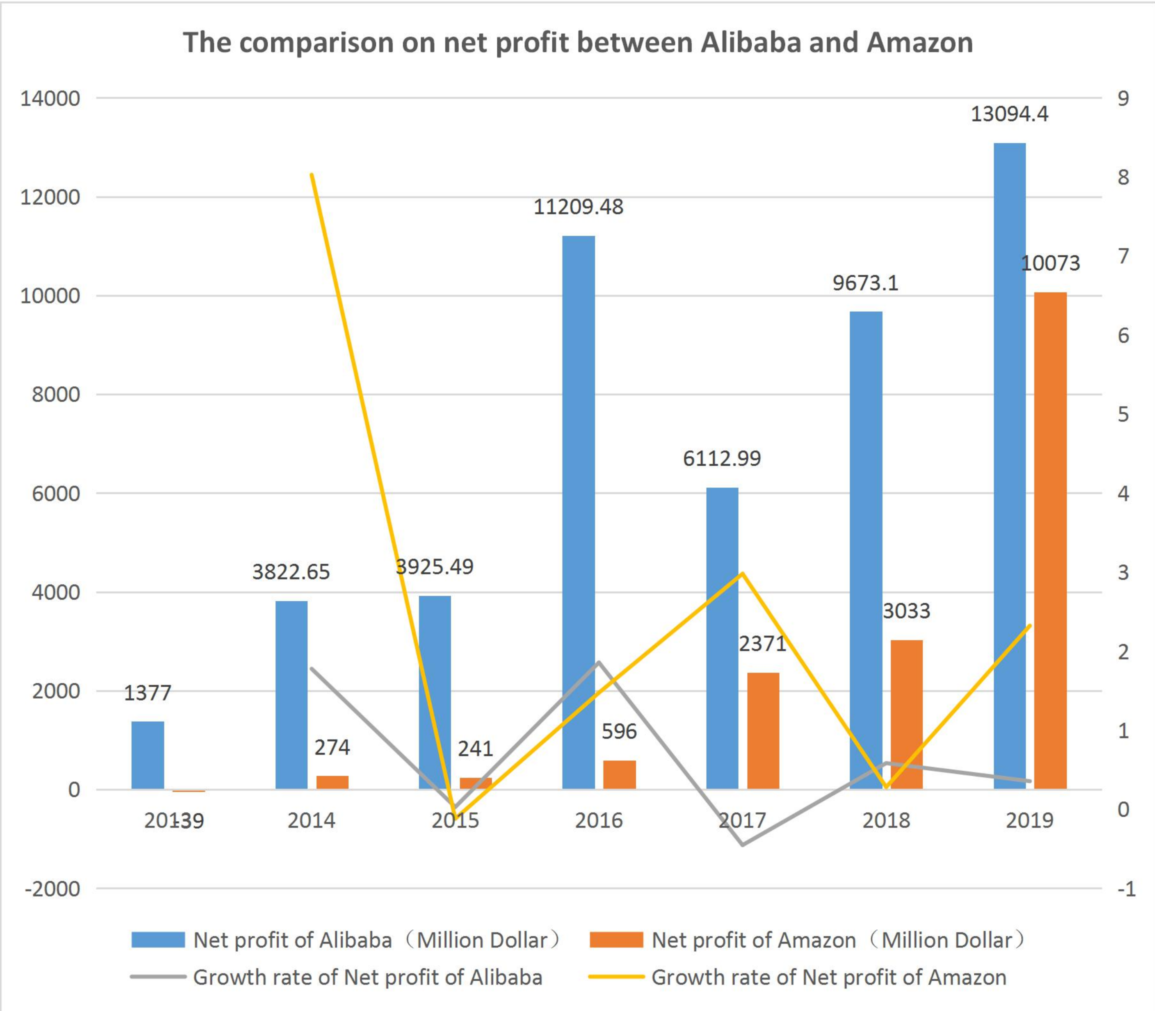


Net profit margin = Net profit / Sales revenue

We can analyze from net profit and sales revenue. In the above table, Alibaba's net profit margin is much higher than that of Amazon, even though Amazon's annual revenue is higher than Alibaba's, its net profit is not high, and its profitability is low, in 2013 it was in loss.

The comparison on net profit between Alibaba and Amazon is as following,

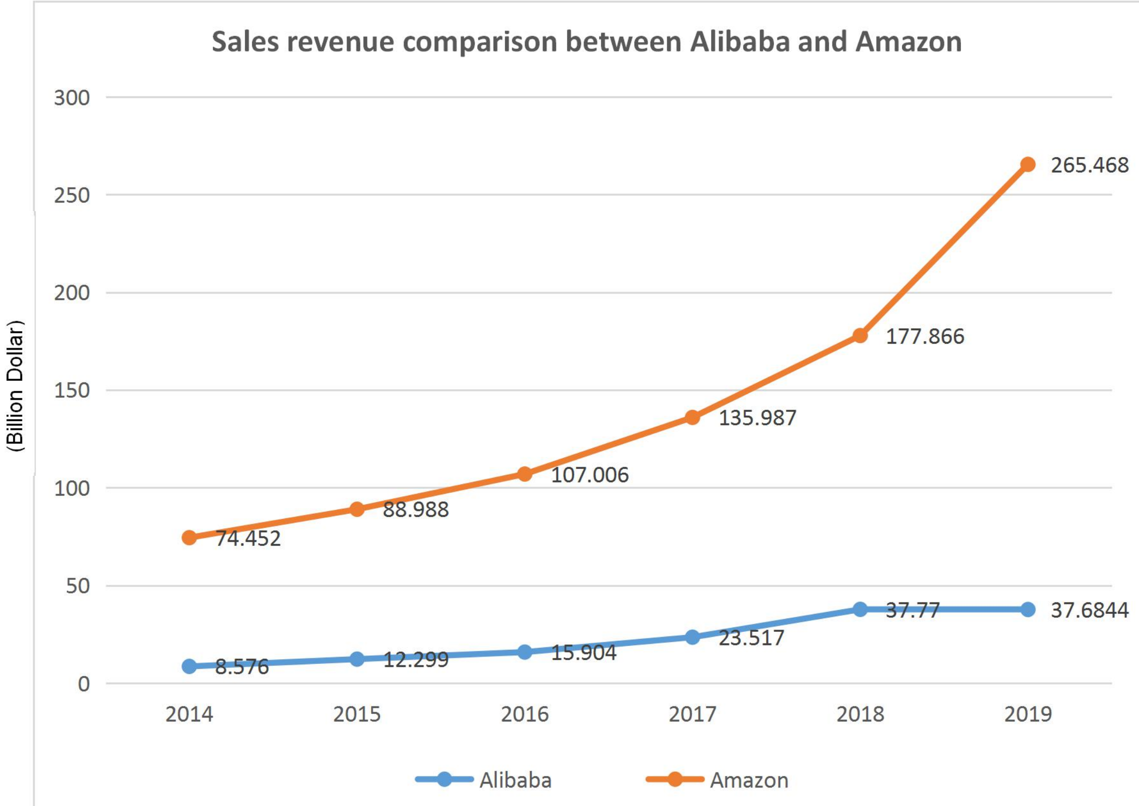
Year	2013	2014	2015	2016	2017	2018	2019
Net profit of Alibaba（Million Dollar）	1377	3822.65	3925.49	11209.48	6112.99	9673.1	13094.4
Net profit of Amazon（Million Dollar）	-39	274	241	596	2371	3033	10073
Growth rate of Net profit of Alibaba		177.61%	2.69%	185.55%	-45.47%	58.24%	35.37%
Growth rate of Net profit of Amazon		802.56%	-12.04%	147.30%	297.82%	27.92%	232.11%



During 2013-2016, Alibaba's net profit showed an upward trend and declined in 2017. Amazon's net profit fluctuated greatly during 2013-2019, with the growth rate of net profit in 2013 reaching 802.56%.

Let's analyze sales revenue between Amazon and Alibaba. More than 80% of

Alibaba's revenue comes from advertising and commission income from e-commerce platforms, while Amazon relies mainly on online sales, with online sales accounting for more than 65% of its total revenue. From the figure below, their sales revenue on e-commerce platform have increased significantly in recent years, and that of Amazon is beyond on that of Alibaba, which is related to scale of both.

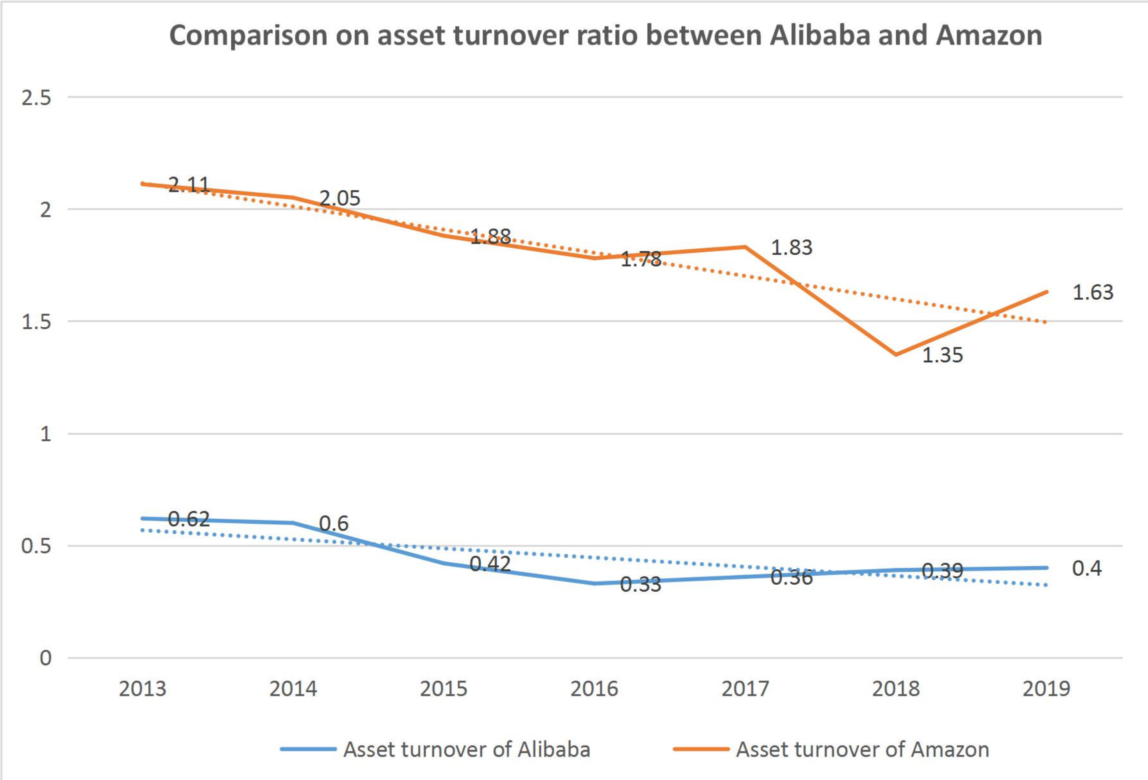


(3) Asset turnover analysis

The asset turnover rate is the ratio of the enterprise revenue to the total assets, which represents the benefits that the enterprise can create by using the unit asset. As shown in table below, Amazon's asset turnover rate in the 2013-2019 is much higher than that of Alibaba. This means the benefit of Alibaba's unit assets is lower than Amazon's under the current profit model.

Comparison on asset turnover ratio between Alibaba and Amazon

Year	2013	2014	2015	2016	2017	2018	2019
Asset turnover of Alibaba	0.62	0.6	0.42	0.33	0.36	0.39	0.4
Asset turnover of Amazon	2.11	2.05	1.88	1.78	1.83	1.35	1.63

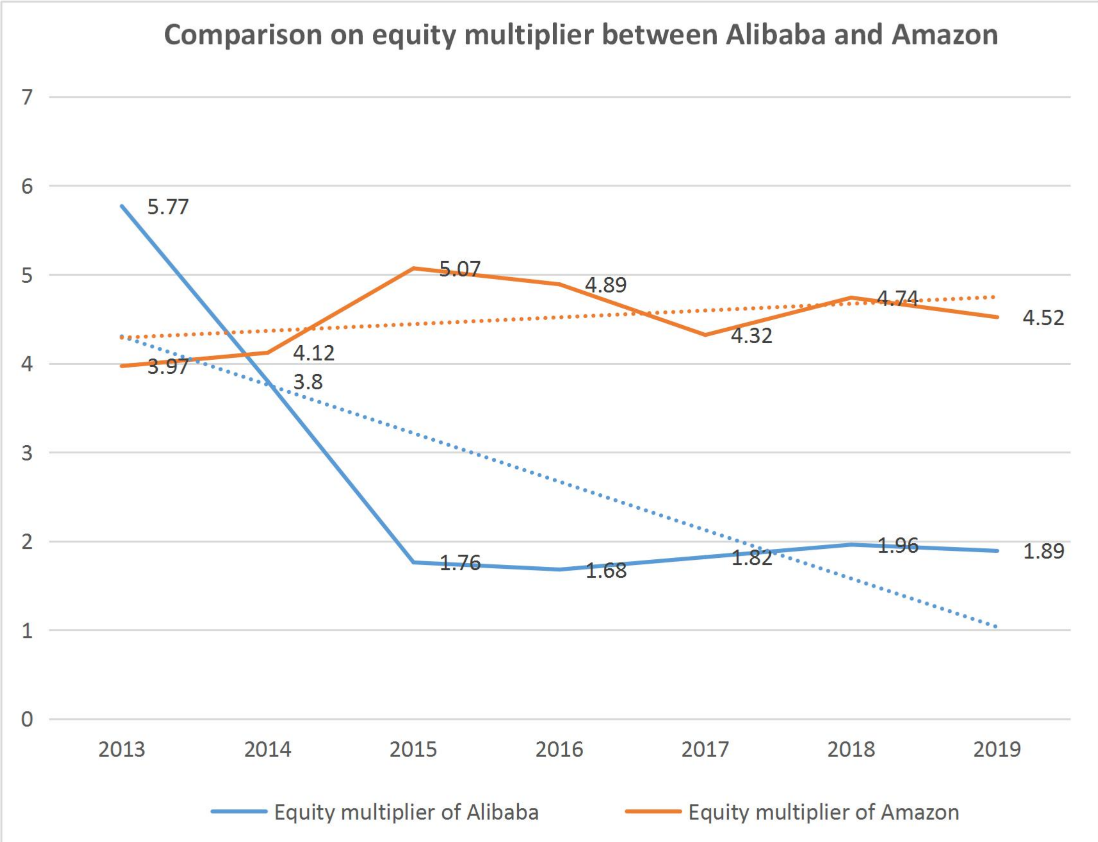


（4）Equity multiplier analysis

The table below compares Alibaba's and Amazon's equity multiplier. Amazon's equity multiplier in 2013 is slightly lower than Alibaba, but it is converse in the next five years. The gap between both is small, and equity multipliers of both are in an overall downward trend, indicating that Alibaba and Amazon's debt levels have risen slightly. The development of Alibaba is in prosper period, the equity multiplier increasing can help it create greater profits.

Comparison on equity multiplier between Alibaba and Amazon

Year	2013	2014	2015	2016	2017	2018	2019
Equity multiplier of Alibaba	5.77	3.8	1.76	1.68	1.82	1.96	1.89
Equity multiplier of Amazon	3.97	4.12	5.07	4.89	4.32	4.74	4.52



4.3 Cash flow analysis

4.3.1 Profit quality analysis

The profit cash ratio is the ratio of the net cash flow to net profit in the business process. In most cases, this value is proportional to the profit quality of the enterprise and the degree of profit realization. The larger the value is, the more freely control cash by the company can, which can significantly strengthen the company's debt repayment and cash level.

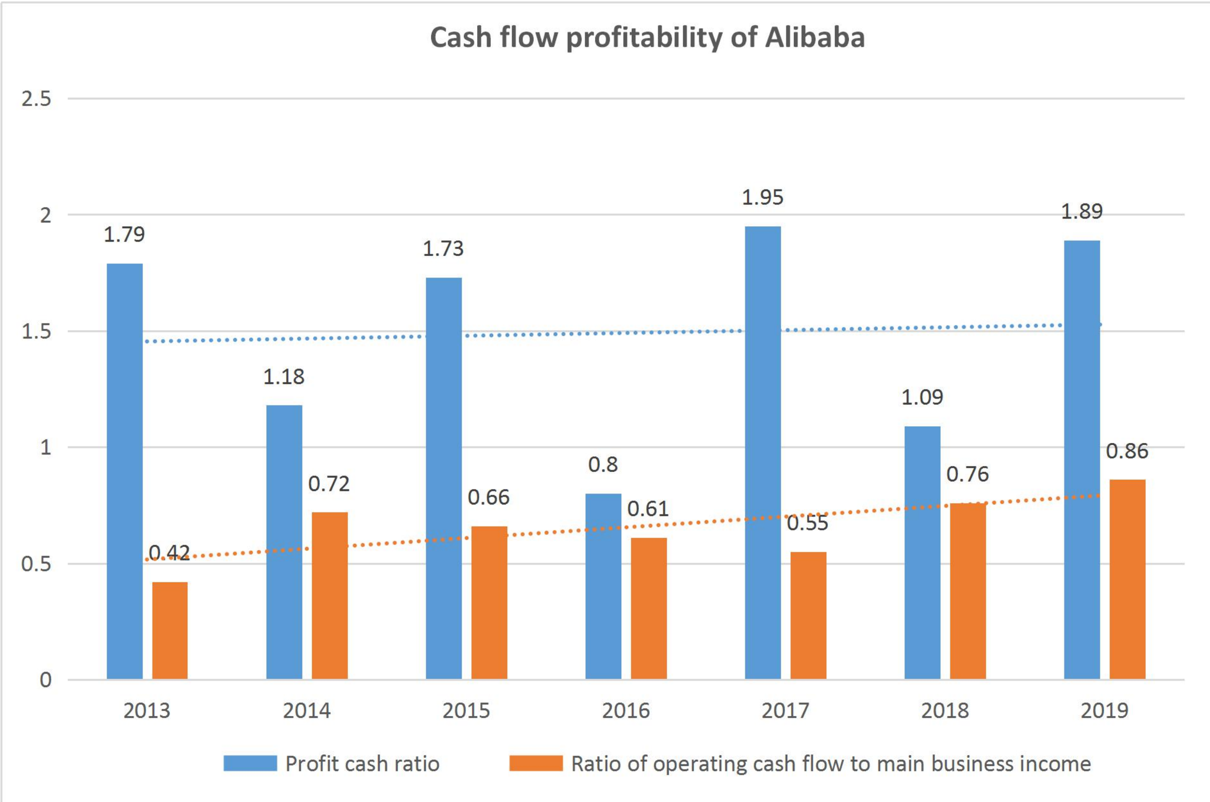
Profit cash ratio = Net cash flow / Net profit

The ratio of operating cash flow to main business income can be more accurate to show the return of the main business income funds.

The table below shows the specific values of several indicators of Alibaba in 2013-2019. It can be seen that the earning quality and paying ability are higher.

Cash flow profitability of Alibaba

Year	2013	2014	2015	2016	2017	2018	2019
Profit cash ratio	1.79	1.18	1.73	0.8	1.95	1.09	1.89
Ratio of operating cash flow to main business income	0.42	0.72	0.66	0.61	0.55	0.76	0.86



4.3.2 Fundraising and payment ability analysis

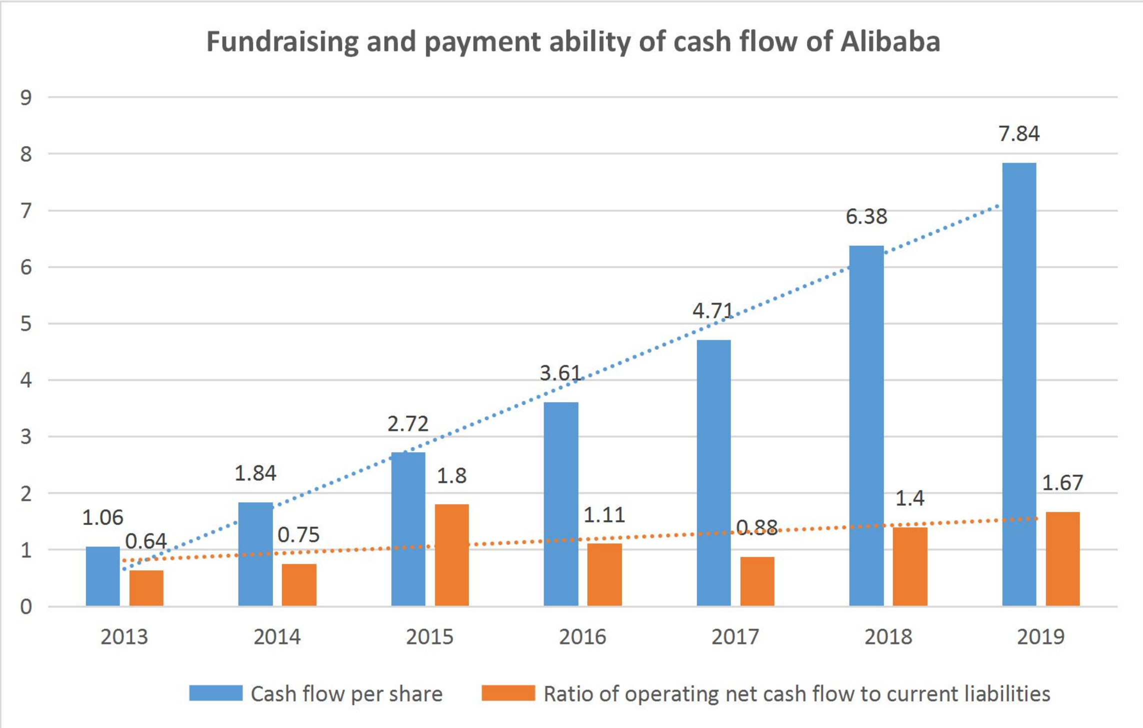
The ratio of operating net cash flow to current liabilities presents the level of cash flow to current debt repayment. In most cases, this value is directly proportional to corporate liquidity and current debt repayment ability. From the data shown in table below, it can be found that the Alibaba’s indicator is slightly higher, but the overall statement is declined, which means that the pressure on company to repay short-term liabilities by cash is getting higher, and the liquidity is gradually decreasing.

The operating cash flow per share can intuitively reflect the average cash flow of common stock outstanding per share.

Cash flow per share = (operating cash flow - preferred stock dividends) / number of common shares outstanding

Fundraising and payment ability of cash flow of Alibaba

Year	2013	2014	2015	2016	2017	2018	2019
Cash flow per share	1.06	1.84	2.72	3.61	4.71	6.38	7.84
Ratio of operating net cash flow to current liabilities	0.64	0.75	1.8	1.11	0.88	1.4	1.67

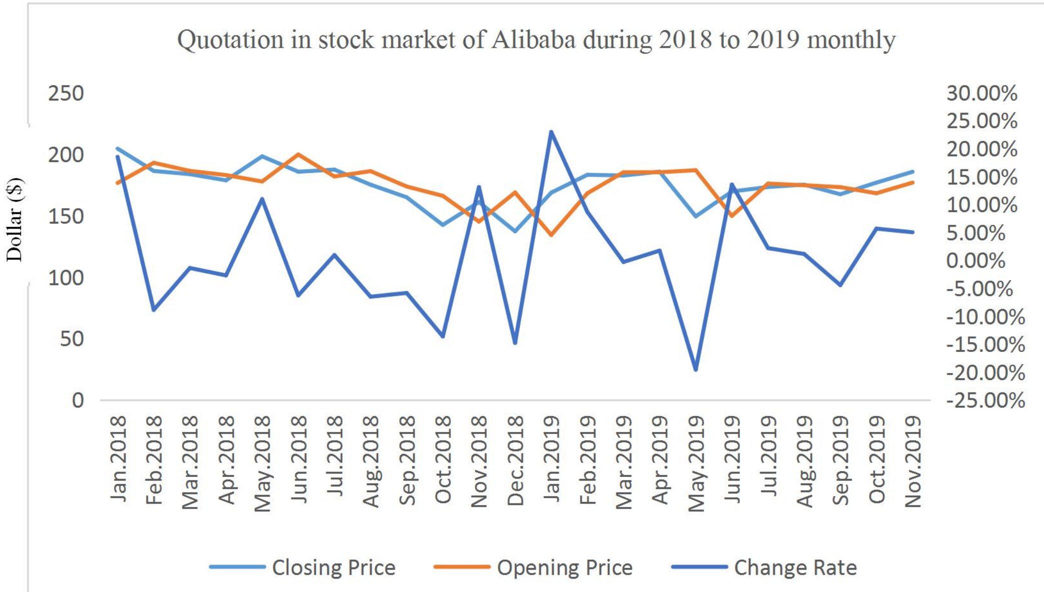


According to the financial analysis of Alibaba, Alibaba's overall profitability is at the top level of the industry, which can ensure high income and net profit growth rate in the long run. The quality of profit, fundraising, and debt repayment level can meet the needs of enterprise development.

4.4 Quotation in stock market of Amazon and Alibaba

Alibaba and Amazon both were listed, and their stock in market can be sold and bought. According to the data recorded by stock website, here are quotations in stock market of Alibaba and Amazon during 2018 to 2019 monthly respectively as following.

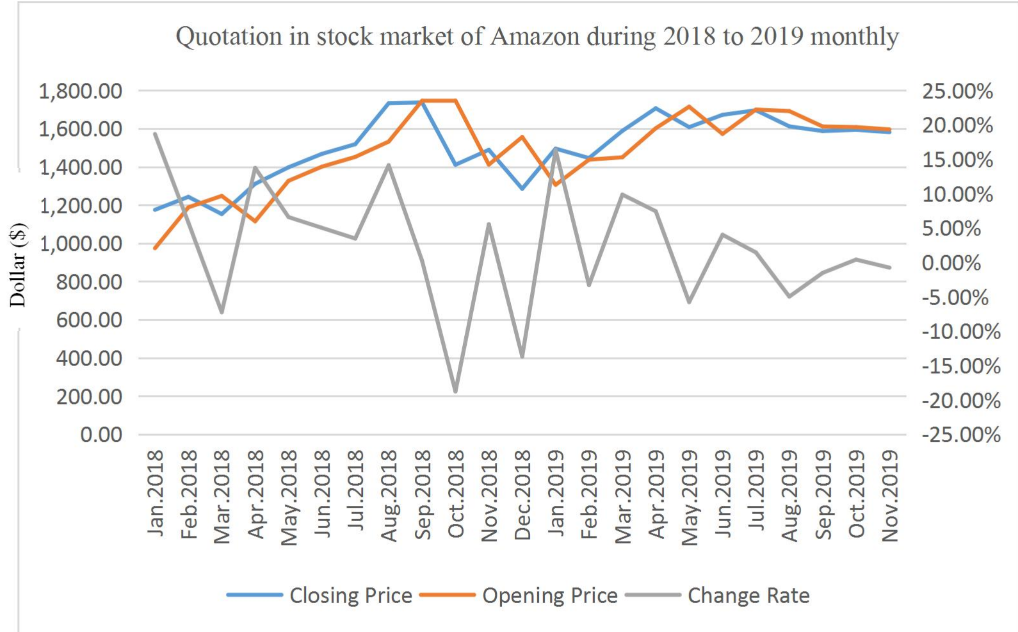
Quotation in stock market of Alibaba during 2018 to 2019 monthly				
Month	Closing Price ($)	Opening Price ($)	Volume of Business	Change Rate
Nov.2019	185.49	176.67	-	4.99%
Oct.2019	176.67	168.01	261.61M	5.64%
Sep.2019	167.23	173	247.36M	-4.46%
Aug.2019	175.03	174.54	405.88M	1.11%
Jul.2019	173.11	175.87	356.34M	2.16%
Jun.2019	169.45	149.6	431.89M	13.53%
May.2019	149.26	186.75	511.79M	-19.57%
Apr.2019	185.57	185.09	260.69M	1.71%
Mar.2019	182.45	185.09	233.50M	-0.32%
Feb.2019	183.03	168	223.66M	8.63%
Jan.2019	168.49	134.13	361.43M	22.92%
Dec.2018	137.07	168.64	344.56M	-14.79%
Nov.2018	160.86	144.98	456.40M	13.06%
Oct.2018	142.28	165.92	544.32M	-13.64%
Sep.2018	164.76	173.5	433.33M	-5.86%
Aug.2018	175.01	186	605.66M	-6.53%
Jul.2018	187.23	181.66	321.80M	0.92%
Jun.2018	185.53	199.5	408.90M	-6.30%
May.2018	198.01	177.58	412.79M	10.91%
Apr.2018	178.54	182.81	323.63M	-2.72%
Mar.2018	183.54	186.18	382.84M	-1.40%
Feb.2018	186.14	192.75	445.03M	-8.88%
Jan.2018	204.29	176.4	445.13M	18.48%



The stock price was changed flatly, it can be shown that there is a flat and stable operation of Alibaba finance. The stock price is lower than Amazon, however the Volume of Business is much huger than that of Amazon.

Here is quotation in stock market of Amazon during 2018 to 2019 monthly as following.

Quotation in stock market of Amazon during 2018 to 2019 monthly				
Month	Closing Price ($)	Opening Price ($)	Volume of Business	Change Rate
Nov.2019	1,581.40	1,596.00	-	-0.77%
Oct.2019	1,593.60	1,607.80	73.19K	0.40%
Sep.2019	1,587.20	1,611.20	55.28K	-1.53%
Aug.2019	1,611.80	1,691.80	91.25K	-4.98%
Jul.2019	1,696.20	1,700.00	76.32K	1.44%
Jun.2019	1,672.20	1,572.20	67.35K	4.01%
May.2019	1,607.80	1,715.00	107.09K	-5.78%
Apr.2019	1,706.40	1,601.99	71.42K	7.43%
Mar.2019	1,588.34	1,449.99	81.12K	9.85%
Feb.2019	1,445.94	1,437.49	71.94K	-3.30%
Jan.2019	1,495.27	1,306.06	141.06K	16.35%
Dec.2018	1,285.10	1,556.00	145.56K	-13.69%
Nov.2018	1,488.94	1,411.49	199.44K	5.54%
Oct.2018	1,410.78	1,746.99	327.02K	-18.78%
Sep.2018	1,737.01	1,746.00	211.49K	0.23%
Aug.2018	1,733.07	1,531.99	139.83K	14.13%
Jul.2018	1,518.54	1,452.00	142.56K	3.46%
Jun.2018	1,467.78	1,400.95	117.92K	5.02%
May.2018	1,397.56	1,326.79	109.96K	6.58%
Apr.2018	1,311.25	1,114.89	139.76K	13.74%
Mar.2018	1,152.82	1,248.00	174.08K	-7.25%
Feb.2018	1,242.96	1,187.91	283.00K	5.79%
Jan.2018	1,174.95	974	127.22K	18.66%



4.5 Barriers of entering market abroad for Amazon and Alibaba

4.5.1 The barriers of entering market abroad for Amazon

4.5.1.1 Amazon' barrier in China

Amazon's founder is Jeff Bezos, who has captured Canada, France, the United Kingdom, Germany, Japan and the United States e-commerce market, then took a fancy to China's 80 million Internet population. In today's Amazon, the market value is nearly one trillion US dollars, second only to Apple in the global listed companies, Amazon's AWS cloud service, Echo smart speaker, Prime membership service and Kindle e-book reader are very popular, Bezos is happy to share Amazon's central view, space adventure, but there is a taboo for conversation, that is China.

After Amazon entered the Chinese market, it perfectly broke a good trend for Amazon. In 2004, when Amazon acquired Joyo, the sales amounted to 7 billion US dollars. In 2007, after the completion of the docking of Amazon and Joyo, Joyo changed its name into Amazon. In 2018, its share in the B2C market in China was 15.4%, but its current market share is less than 1%.

In Amazon's financial report last year, the German market contributed $16.9 billion, Japan had $11.9 billion, and the United Kingdom had $11.3 billion. Among the Chinese e-commerce in 2017, Jingdong had $55.7 billion transaction value, and Amazon lost a big cake in vain. Amazon found Wang Hanhua as CEO in Amazon

China who was the former vice president of Motorola Asia Pacific, he had worked in Amazon for seven years. Although Wang Hanhua is the president of Amazon China, his authority is only in charge of sales, and the US headquarter is responsible for the operation and logistics of the Chinese market. Although Wang Hanhua can decide what can be sold, it is always stuck in stock. And Chinese suppliers have no good feelings for Amazon. In addition, domestic Tmall and Jingdong are all rising in China. Amazon has no advantage at all, its market share is naturally falling then invisible.

Former Amazon staff member said that the way that was used by foreign sellers has completely failed in China. "The biggest reason for Amazon's failure is the conflict between Western and Chinese cultural values." he said. But the underlying reason is that Amazon lacked the awareness of integrating Chinese genes. Perhaps the sweet taste in the foreign market makes Amazon want to copy the same business model, Amazon is immersed in the glorious history and forget to adjust the marketing strategy. Amazon has become the world's "largest integrated online retailer" due to its unique online sales model and low price. In 2015, it had a market value of more than $260 billion, and defeated Wal-Mart to take the throne of the global retail industry. Why did the giant fail in China, and what inspired us?

1) The collision of Chinese and Western cultures and values

“Cultural commonality” is the key of companies successfully exporting products and brands. When a brand comes into completely different culture, if it is still hard to maintain its original style and is unwilling to integrate into the genes of local culture, it can only be a "heterogeneous". The biggest reason for Amazon's failure lies in the lack of awareness of the culture of integrating into China.

Brand concept vs. "price performance ratio" concept

Amazon China's main products are with brand, so it is hard to live for small brands and businesses. One of the biggest differences between Chinese consumers and foreign consumers is that foreign consumers are willing to pay for the brand, while Chinese consumers could value the “price/performance ratio” of the product. There are certain historical reasons behind Chinese consumers' contempt for the brand, it is difficult to change now. When Chinese consumers are reluctant to pay more for the "brand" premium, Amazon's brand operation concept is difficult to avoid frustration.

Take the "shortcut" vs. "rules"

Foreign sellers have always mentioned a lot of Chinese sellers, and even foreign sellers have joined to boycott Chinese sellers. The reason is that Chinese sellers have broken Amazon's original orderly competition, subverted Amazon's competition rules. Chinese sellers control the reviews, make their products top in the list and crowd out countless foreign sellers. For this kind of behavior, it can only be avoided by repairing Amazon's competition rules, but Amazon's patching of rules is far less timely than that of Chinese sellers.

"Price" vs. "Value"

Amazon has never bothered to "price wars," said Wang Hanhua, Amazon wants to have more loyal users by brand value. This way may work in foreign countries. However, China does not have the foundation of e-commerce operations. The rapid development of information technology and the rapid changes in lifestyles make people have a natural distrust of network shopping. If you are not willing to deduct the price, Chinese consumers can not be attracted. When Amazon realized this condition, it joined the "double eleven" big sale day, it was too late, competitors such as Taobao and Jingdong had already occupied most of the market.

2) Major mistakes in marketing strategy

Amazon has made a series of mistakes in its marketing strategy, causing Amazon to withdraw from the Chinese market.

Despise market research

Market research is the first step for companies to enter a new market. Amazon must understand this truth, but the past experience made Amazon careless. When Amazon entered China, Dangdang, Taobao and other competitors had already deployed a relatively complete e-commerce marketing system in China, occupying most of the market. Amazon had a naive attitude towards the Chinese market because of its achievements.

Lack of competitive advantage

Compared to competitors, Amazon lacks significant identifiable logos and competitive advantages. Taobao, relying on the initial price war to slaughter the market, constantly standardize operations. Jingdong, with the slogan of "authentic" and "service", harvested the hearts of countless consumers. Only Amazon did not seize the opportunity at the beginning, coupled with the lack of follow-up power, it did not determine their own competitive advantage to stand out from the competition difficultly.

3) Lack of innovation in the operating model

The biggest problem with Amazon is that it doesn't pay attention to the user experience in time.

Lack of user experience

On April 18, 2019, the topic of "Amazon will withdraw from China's operations" quickly entered the hot search list in China. Most of the comments under the topic are complaints to Amazon. "The typesetting of the last century, the difficult interaction." "Amazon's web-based experience is still in the era of zero years, and the app experience is really bad. There is no desire to open it." Amazon lost a plenty of loyal fans because of the bad "user experience." According to statistics, Amazon's global development momentum is rapid, from the beginning of the year, Amazon's share price has risen more than 20%. In 2018, Amazon's annual revenue increased by 31% to 232.887 billion US dollars, exceeding 200 billion US dollars. Net profit increased by 232% to 10.073 billion US dollars, breaking through 10 billion US dollars for the first time. Absolute competitive position and monopoly advantage have caused Amazon to lose the power of innovation. However, in the fierce competition, the giants want to enter Chinese market, Amazon's original strategy is difficult to practice. There is no absolute competitive advantage and market base.

Ignore the power of small-scale seller

Small-scale seller is a vulnerable group in Amazon's operating system. Because of Amazon's strict complaint system, a malicious complaint may lead small-scale seller to go bankrupt. If the customer complains of "fake" on the platform, the Amazon account will be suspended and the funds will be frozen. Even if the truth of such a complaint is doubtful, it is very difficult for the seller to prove his innocence. Under such a marketing system, many small-scale sellers are lost to other platforms. It has brought irreparable losses to Amazon.

4.5.1.2 Amazon' barrier in India

Indian traders, physical retailers and farmers' rights protection organizations are putting pressure on the government to end the e-commerce company's large discounts and predatory pricing strategies. Although Indian officials have made it clear that they will take action against large discounts and predatory pricing, traders hope that the authorities will introduce their e-commerce policy as soon as possible, rather than waiting for a vote. Praveen Khandelwal, Secretary General of the Confederation of All India Traders (CAIT), said, "The predatory pricing method of e-commerce companies has largely disrupted domestic business development. The intention of these large companies is to control trade and the economy. Because India lacks some policies and mechanisms for the regulation of e-commerce companies, they are able to manipulate the market according to their own wishes. We should take the necessary measures immediately, why should we wait for the vote to make decisions? The introduction of e-commerce policies and the role of regulation are top priority."

India restricts online shopping for Chinese products

Indian media reported that a large number of "gifts" from China triggered dissatisfaction among Indian companies. Indian government also concerned that a large number of Chinese products entering the Indian market are not conducive to the development of local enterprises. In order to avoid the situation, Indian government intends to take restrictive measures. Everyone knows that India is indeed a lucrative e-commerce market for Chinese companies. However, the market with full potential will encounter some more difficult challenges. It is reported that many sellers in Indian market said, "The Indian market is too difficult to do, and Indians can hardly deal with people." "India's return rate is extremely high, and logistics can take at least three weeks, but Indian buyers often don't accept this speed."

If India really imposes the e-commerce restriction on sellers, the impact on Chinese sellers is still very large. Amazon announced the opening of the Indian station to Chinese sellers. In the 2018 Black Friday and Monday shopping season, Amazon India Station became the largest shopping center and the most traded shopping center in India. Many e-commerce giants are competing for the Indian station, undoubtedly because the growth rate of e-commerce in India is staggering. According to statistics, the number of online shopping accounts in India is expected to reach 220 million by 2025. If India implements this policy, it is very difficult for Chinese sellers to expand their territory in the Indian market.

It is very different of Amazon in India and in the United States

When the e-commerce giant of Amazon is actively entering the Indian market, it has been subjected to various restrictions from India. Amazon invested $16.7 million in the Indian logistics sector to aggressively capture the Indian logistics market. In FY18, revenues in the division increased by nearly 60% year-on-year, it increased from $135.53 million in 2017 to $217.725 million.

In the United States, its e-commerce business is highly concentrated within the company. It controls every component of a company's operations by having multiple lines of business, making it one of the largest companies in the world. But in India, neither Amazon nor its rival, Flipkart (now owned by Wal-Mart), can't control the e-commerce market structure likes Amazon does in the US. A key reason is that Indian regulations explicitly prohibit e-commerce companies from acting as both third-party platforms and also self-operated businesses. As a result, Amazon and Flipkart are unable to sell their own products on their own websites. According to the foreign direct investment policy, 100% foreign investment is allowed as a platform for e-commerce, but e-commerce retail is not allowed. First, Amazon has the dominant position as a platform to require independent businesses to use their website. Second, their vertical integration is just as a large retailer, doing the same thing in the market as small businesses. Third, as an Internet company, they are able to collect large amounts of data. However India’s policy has clearly prevented this.

4.5.2 The barriers of entering market abroad for Alibaba

4.5.2.1 Alibaba’ barrier in Southeast Asia

The performance of AliExpress in Brazil and Russia is gratifying, and customers in these two markets are price sensitive. However, Alibaba’s bigger bet in markets such as Southeast Asia is lagging behind rivals in terms of growth rate or scale, while still burning money. It is difficult for Ali to control employees and markets different from China. Sometimes, it adopts an aggressive, top-down management style that is applicable to China but not used in other markets. A spokesman for Ali said the company is committed to becoming a global company. “Southeast Asia is a market with great potential. Unlike our focus on short-term and low-quality growth, we look at the long-term operation.” he said. The challenge facing Ali reflects the obstacles that Chinese giants face when competing globally with Amazon, Google and other Western rivals. With the help of employees who are willing to work overtime, Chinese technology companies are developing rapidly in China. The Chinese government's policy support is also beneficial to domestic companies, but this advantage is not available overseas.

Dealogic's data shows that since 2014, Chinese companies such as Tencent, JingDong and Baidu have led $85 billion in overseas investment transactions. Chinese companies have also launched a small number of popular products overseas, such as TikTok popular in the United States. Many other investments by Chinese companies are designed for long-term deployment, and it is too early to assess its success. So far, no Chinese company's overseas size and influence can be compared with Western rivals. Singaporean entrepreneur and investor James Chan has worked with Chinese companies in Southeast Asia. He said that Chinese executives believe that it is easy to conduct business in a smaller market, but the result is not the case.

“If you don’t listen to me, please leave,” James Chen talked about the management style of Chinese executives. “At this point, the general consensus of Chinese companies is that they only need to force their own practices.” Ali said that their goal in China will be to lock in more than 500 million underdeveloped urban users online in the next 10 years. In 2016, when Alibaba spent $1 billion to acquire control of Lazada, entering the Southeast Asian market seemed to be a reasonable move. At the time, Lazada was the largest e-commerce company in Southeast Asia. The following year, Ali invested another $1 billion in Lazada and added another $2 billion in investment in 2018.

4.5.2.2 Alibaba’ barrier in America

The US e-commerce market is full of development potential, and it also contains countless market opportunities. Ebay's success has set an example for many ambitious e-commerce companies to go to the US market. However, although the power of the example is endless, the market's lethality is equally huge. When it comes to the United States, it does not mean success. This is the case with Alibaba, the first test of the US e-commerce market. Recently, Alibaba announced that it will sell its shopping platform 11 Main, which was established in the US last year, to social shopping platform OpenSky. At that time, it was only one year since Alibaba created 11 Main in the United States. What happened during this year, so that Alibaba, the giant in the Chinese e-commerce market, lost its opportunity?

11 Main special point

For Alibaba, 11 Main carries the idea of competing with local companies such as eBay, Amazon and handicraft e-commerce Etsy. According to a report on the US TechCrunch website, Alibaba signed an agreement with a US-based social shopping company called OpenSky to merge Ali's 11Main business with OpenSky in the United States. At the same time, Alibaba sold its previously acquired three US companies that supplied logistics and fulfillment services to 11Main, Auctiva, Vendio and SingleFeed, to OpenSky. According to the agreement signed by the two parties, Alibaba will hold a 37.6% stake in OpenSky after the sale of 11 Main, and 11 Main will still operate as an independent website. For Alibaba, the sale of 11 Main is undoubtedly a failure to enter the US e-commerce market strategy. It should be noted that 11 Main is a boutique shopping platform launched by Alibaba in June last year, mainly serving the US market. According to the original plan, the products sold on this website include fashion, design, home, outdoor, jewelry, watches, maternity and baby products, and toys. This is very different from another very successful e-commerce site owned by Alibaba, Taobao. In Taobao, almost everyone can open a store without any threshold. 11Main's positioning for the business includes excellent product quality, excellent product design and excellent brand story, providing fast and low-cost courier services and so on.

11 Main's approach is the first in the US market. In order to compete with the local e-commerce platform, 11 Main only charges merchants a lower store opening fee, and requires each online store to have its own story and style. What makes 11 Main

unique is that its core is not the merchandise, but socializing around the merchant based on commodity search. As explained by Mike Ever, the chief operating officer of 11 Main, the "11" in “11 Main” means one-to-one connection between consumers and merchants.

This seems a creative idea. However, such a good idea hides the risks actually. That is why the “boutique” route is doomed to the fact that this emerging e-commerce platform will face a relatively small customer base. In fact, even the sensational news that Alibaba was listed in the US last year could not make a big splash for 11 Main. "Forbes" magazine pointed out, “11 Main does not handle any goods on the website, the logistics and delivery tasks are all handed over to the seller. However, unlike its US counterparts, the site lacks feedback and communication channels between buyers and sellers. According to the New York Times, Alibaba’s dream of entering the US market dates back at least to around 2000. At that time, Yun Ma made the decision to move Alibaba.com to Silicon Valley, but eventually he returned because of domestic and foreign teams vying for resources. However, Yun Ma apparently did not give up his own ideas. In 2014, for the US consumer group, Alibaba finally launched 11 Main and took the first step toward the US market.

Hard to stop the impact of local giants

The US market is mature, and Amazon, eBay, and traditional retailer websites have already occupied most of the market, and it will be difficult to rebuild a logistics, warehousing, and supply chain system in the United States. At the time of the establishment of 11 Main, Alibaba executives said that the company's international expansion strategy will focus on helping foreign businesses and brands sell goods to Chinese consumers. In November last year, Alibaba vice chairman Cai Chongxin said, "The key question is whether we have something in the US market that really targets American consumers. We believe that in the long run, this is an interesting market. But now, Our focus remains on cross-border activities."

However Alibaba’s e-commerce road in the United States is still very long. For this giant who has achieved great success in the Chinese e-commerce market, why did it defeat the United States? Who defeated 11 Main? US e-commerce analysts believe that 11 Main's failure has many reasons.

First of all, Amazon is the main reason. It is important to know that Amazon has a large number of logistics distribution centers in the United States. These distribution centers not only ensure the control of internal logistics costs, but more importantly, they can maximize the consumer shopping experience. Secondly, in the process of internationalization of e-commerce brands, it will inevitably encounter strong resistance from local brands. The most important factor in the influence of e-commerce brand is the user experience. Whether the goods can be delivered within 24 hours, how the quality of after-sales service is, and whether the price is low, these are the key factors to occupy the market. Third, 11 Main is also facing competition from e-commerce websites of traditional American retailers such as Wal-Mart.

In response to the sale of the 11 Main, it is very difficult for Ali to build a comprehensive platform based entirely on the US market. Because the market is mature, the traditional retailers already occupied most of the market, and it will be difficult to rebuild a logistics, warehousing and supply chain system in the United States. On this basis, Alibaba's 11 Main chose a vertical platform to cut in. Some analysts pointed out that the platform can't control everything. In the vertical field, the platform with the advantage of supply chain will grow faster. Therefore, in the United States, the control of the supply chain is not dominant, it is not easy for Alibaba to break through the vertical e-commerce. 11 Main's new owner, OpenSky, is a social shopping site, in terms of model, it fits into 11 Main's “fan economy” philosophy. For the 11 Main, marrying OpenSky may be a good destination.

How does Alibaba "turn" in the United States?

From the current internationalization strategy of Alibaba, the “11 Main Model” will be temporarily abandoned, and its international business is still mainly based on Tmall International and AliExpress. It now appears that the sale of 11 Main will never mean the end of Alibaba's North American market. Not long ago, Yun Ma said in a speech in New York that Alibaba has a high hope for the US market, but did not regard itself as an enemy of Amazon. Instead, his position as the Chinese e-commerce giant is to become an ally of small American companies that want to sell their products to China.

In the report of the New York Daily, Yun Ma admitted that many people were very curious about Alibaba's actions in the United States. "Many people ask when Alibaba will come to the US. When will Alibaba come to compete with Amazon and EBay? In fact, I have respect for eBay and Amazon. The purpose of my visit here is that Alibaba's next strategy is to help small American companies enter China and help them sell their products in China," Ma said. It is shown that Alibaba has made large-scale investment in various fields in the United States so far. Invested companies include carpooling service Lyft, video calling application Tango, US local logistics company ShopRunner, TV remote control application Peel, social application Snapchat. Alibaba has also built a new data center in Silicon Valley and has partnered with Equinix to expand its presence in the United States. Yun Ma said that the company is globalizing its e-commerce infrastructure, including providing payment tools and logistics centers for small businesses around the world. While Yun Ma expanded the influence of Alibaba in the United States, Amazon is doing the same thing in China.

It is reported that Alibaba's global revenue last year was 390 billion dollars, Yun Ma hopes that the company could surpass Wal-Mart next year. At present only 2% of Alibaba's business comes from overseas markets, and Ma's goal is to expand this ratio to 40%. However, from the current internationalization strategy of Ali, the “11Main model” will be temporarily abandoned. Its international business still relies mainly on Tmall International, which is responsible for importing cross-border e-commerce, and AliExpress, which is responsible for export business.

5. Research conclusion

5.1 Analysis conclusion

5.1.1 Alibaba profit model summary

At this stage, the profitability of domestic Internet companies is basically mature, and their operating models and income sources are relatively fixed. Taking Alibaba as an example, its profit model is as follows. First, Alibaba uses its users as a starting point to upgrade its technology and services, increase user traffic. Chinese and foreign merchants can create profits for Alibaba because of advertising revenue. In addition, Alibaba insists on investing some of its profits in technological upgrading and service research and development.

5.1.2 Alibaba's profit model prospects

As a leader of e-commerce company in China, Alibaba has formed its own organic system, but it has to be acknowledged that Alibaba innovation profit point is very limited. Therefore, in the past two years, in addition to improving the main e-commerce industry, Ali also invested in M&A in various fields such as culture and entertainment, retail logistics and finance. Even though the core of its net profit is still the e-commerce business at this stage, the business income in cloud computing, finance, big data, and mobile are also increasing. These are the development trends of Alibaba in future.

Alibaba's major business parts have adapted to the Chinese domestic market, however there are still many points need to be improved, such as the online fakes that are widely concerned by the society, which has a great impact on Alibaba's reputation and consumption.

In summary, the profit model of Internet companies is diverse. Only by fully considering the different characteristics of each stage of the market, accurately positioning customers and grasping the most urgent needs of customers, value-added services can not be eliminated under the competition among big markets.

5.2 What we can learn

Through the development process of Amazon and AliExpress, by analyzing on product flow, capital flow and logistic, comparing the profit model, cross-border logistics system, fund payment method and operation effect, the following points are obtained.

First, Amazon's profit sources are rich and diverse, and the global AliExpress's profit channel still needs to be expanded. Amazon pays great attention to the scale effect of the platform, insisting that its variable cost can be gradually transformed through scale benefits, and reducing costs means profit from the source. To this end, Amazon uses a low-cost sale strategy to expand the scale. This low-priced sale is different from the traditional low-cost dumping. It means that the products remain competitive in price. The platform launches a series of promotional activities to attract a large number of consumers and promote the sales of goods. Amazon’ s sales of self-operated goods and commissions from third-party merchants can generate most of the revenue.

In addition to offering platform fees and merchandise transaction commissions to Amazon, platform merchants are required to pay a certain percentage of commission if they choose to use Amazon's logistics distribution system. AWS has complied with the trend of big data and cloud computing, and enriched the content of cloud services. In contrast, in addition to charging fees and trading commissions to platform merchants, AliExpress is gradually developing value-added services. For example, its green pass path is an innovation in advertising charging mode.

Second, the cross-border logistics system between Amazon and AliExpress is an advantage. Self-built logistics distribution center can compete with professional express delivery companies. Amazon continuously upgrades the technology of sorting, packaging, and distribution of logistics distribution centers to improve the scientific and technological content and ensure the accuracy and effectiveness of its logistics. At the same time, on the basis of cooperation with third-party logistics, Amazon has built an emerging distribution model of “postal injection”. In contrast, AliExpress's logistics system is more inclined to work with countries in the target market. The platform shortens the delivery time of parcels in the destination country by constructing special line logistics, especially for countries with difficult logistics in Russia, it cooperates with local logistics companies to build Yanwen Russian special line.

Third, Amazon and AliExpress's payment methods are similar. Both Amazon and AliExpress advocate the use of their own third-party payment methods, while offering alternative payment methods to meet the requirement of consumers in various regions. AliExpress's payment methods for European and Latin American countries are more in line with local consumer demand, which is significantly better than Amazon.

Fourth, Amazon's global market system is huge, but the growth rate is slow, while the global AliExpress growth momentum is strong. According to their global search, platform transactions, visits and some financial data, it is not difficult to find that Amazon's data base is significantly larger than that of AliExpress.

Combining the above four aspects, AliExpress can learn the following reference from Amazon's business model. First, Amazon's abundant product flow around the world is that AliExpress needs to continue to learn. The third-party sellers of the AliExpress should go out from the domestic and neighboring countries to face the wider European and American markets. At the same time, the platform needs to continuously enrich the types of goods, although China's clothing and apparel, 3C electronic products are popular in the international market, the expansion of the future product flow should not be limited to this.

Secondly, AliExpress’s third-party payment method is similar to Amazon’s. However, in terms of the closeness of localized payment with countries, AliExpress has yet to be improved, which solves the inconvenience of payment. Amazon's logistics system is quite mature. AliExpress is based on Alibaba's logistics system, its cross-border logistics is developing rapidly, but it still cannot meet the requirements of self-built logistics warehouses in the short term. Finally, Amazon pays great attention to the development of its cloud services, and gradually takes its cloud services as the biggest profit point in the era of big data.

With information evolving rapidly, innovation is the key to develop the competition. The establishment of the Ali Empire develops step by step, from the initial membership fee profit model to the B2B, C2C model and then to the fields of finance, investment, cloud computing, etc., it is the continuous innovation of the profit model that has prompted Alibaba development. In the fast-growing Internet industry, all companies must constantly make innovation to strength the market share. Through a systematic study on Alibaba's value chain. Alibaba's success provides a model not only to e-commerce industry but also to other industries.

According to the elements of the profit model, if company aims to develop well, it must assess its strategy position, understand market demand, review market information in real time, and gradually develop its own advantages according to its own situation and local conditions.