# Amazon and Alibaba: How Cultural Misunderstandings Precede Failure in International Markets

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On my honor as a University Student, I have neither given nor received unauthorized aid on this assignment as defined by the Honor Guidelines for Thesis-Related Assignments

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## Table of Contents

## A Fable for Tomorrow

A long time ago, on the coastline of a peaceful, far-off land, there stood a prosperous walled city overlooking the countryside. The city itself was a technological marvel, with architecture stretching high over the walls and decadent fixtures dotting every inch of the landscape. For those lucky enough to live within, their lives were happy and peaceful. They spent their days working for themselves, striving to better their status through diligence and their wits. They wanted for naught. Everything that one desired could be acquired through perseverance, and everything that one earned would be considered their personal property. Independence, self-reliance, and uniqueness were core tenets of this society. Citizens were beholden to no one but themselves.

One man, in particular, was quite wealthy. Over the years, he had amassed his fortune little by little through hard work and lots of luck. His sphere of influence was present throughout the city. Almost every citizen within either worked for his business or regularly purchased his goods. However, he never found himself satisfied with his achievements, and continually desired further expansion to serve lands far beyond.

On a distant hillside, there stood a second city, equal in prosperity and equal in decadence. Like the first, it was a technological marvel. Its architecture stood just as high; its history just as rich and storied. Those living within were just as happy and peaceful, but rather than spending their days working for their personal benefit, they chose instead to prioritize the common good. Collectivism, rather than individualism, reigned. Family and community came first. Citizens were encouraged to work as a group and support others in that group whenever necessary. In fact, they enjoyed a completely different way of life from those residing in the first city.

Upon hearing of the existence of this second city, the man from the first made the decision to take his business within their walls. He sent an envoy to make contact. At first, the envoy was taken aback by just how different the culture of the city was, but believing his boss would reward him much more for good news than bad, resolved to keep it to himself. He returned to his city and spoke only praises of the newfound land. Hearing this, the man made plans to travel personally. Along with his retainers, he set out on his journey a few days later.

After arriving, the man quickly began to promote his business. He marketed himself to all those who would hear, gave away samples of his product to everyone on the street, and tried his hardest to make inroads in deals with other business owners. Yet few were interested, and the man conceded defeat at the end of the first day. He found a nearby inn, and bought a room through which to spend the night.

The second day began the same as the first. Undeterred from his setbacks, the man continued to try and sell his goods. He put on magnificent spectacles presenting what he had to offer, provided discounts to anyone interested, and put his wealth on display as best he could. Yet once again, most turned him away. He made few sales, and the money spent on the displays was only weighing more and more on his conscience. As the day drew to a close, the man started to become dejected. He noticed a passing woman, though, who was carrying an object quite similar to that which he was selling. Upon his insistence, she informed him of a merchant just outside the city walls whom had sold her the item.

On the third day, the man decided to locate this unknown merchant. After some time, he came across a quaint little shop manned by a single individual. If not for the small sign just outside the window, he never would have guessed that the store would be open for business. In spite of its size, however, it wasn't lacking in customers.

The man stopped outside the shop, and observed it for a long while. He was struck by just how familiar the shopkeeper acted with his customers. Almost everyone who entered was greeted warmly, as if they were a long-lost friend. The craftsmanship of the items sold, as well, was also astounding—just as good, if not better, than the man's own wares. With every interaction, and every sale made, the man began to realize more and more the folly of his quest. Unlike in his own city, there was no need for his services here.

## Introduction

In April 2019, Amazon made the decision to shut down its domestic e-commerce marketplace in China after fifteen years of operating losses (Weiss, 2019). On a similar note, as of March 2019, the United States only accounted for about $1.2 billion of Alibaba's annual revenue, or less than 2.5% of the company's total (Richter, 2019). While this portion has been growing, especially in the last few years, the company itself still only possesses close to a 0.35% share of the e-commerce retail market in the United States (Richter, 2019). As such, this paper will specifically examine the situations of each of these two companies, with the goal of creating a rationale as to why Amazon and Alibaba have failed to gain competitive shares of the e-commerce retail market in China and the United States, respectively. I will analyze the business models of each company, as well as the domestic cultures and international relations of both countries mentioned above. Specifically, regarding culture, I will focus on the concepts of individualism in relation to collectivism, the differences in societal norms between the two countries, and the role of government in the economy. Overall, the over-arching questions that this paper seeks to address are as follows:

- Can Amazon's failure and later withdrawal from China be attributed to a cultural misunderstanding of the market?
- Can Alibaba's slow growth to gain a competitive share of the United States market be attributed to a cultural misunderstanding?

In order to examine these questions further, I've elected to follow a case study approach through which I specifically investigate cases from both the United States and China in relation to Amazon and Alibaba.

## Literature Review

As two of the largest e-commerce companies in the world, it stands to reason that both Amazon and Alibaba have each been compared and discussed in-depth by researchers around the globe. In order to build off of this breadth of work, it's important to learn what has already been discussed and acknowledged in order to gain a sense of what still needs to be said. This section will specifically focus on the analysis of some of the current published works that discuss each of these two companies and their established business practices in China and the United States, respectively.

In *Why Have All Western Internet Firms Failed in China? A Phenomenon-Based Study*, Feng Li (2019) compares Amazon and other western companies whom have experienced hardship when navigating the Chinese market. With regard to Amazon, in particular, he mentions that the company failed to secure a stake in Chinese retail for a number of reasons, but mainly that they were ill-equipped to deal with the extreme competition that China had to offer.

In *Amazon and Alibaba: Internet Governance, Business Models, and Internationalization Strategies,* Wu and Gereffi (2018) explain the two companies in depth. They also offer another cause beyond pricing and competitors for Amazon's failure, remarking that:

> "Amazon's heavy dependence on logistics [also] makes it different to transfer its domestic success… In many of Southeast Asia's markets, Amazon is forced to rely on its vaunted experience in managing and delivering inventory to overcome the lack of reliable infrastructure."

This notion does help to explain one of the main reasons why Amazon's been able to become so successful domestically—they've been ruthless in controlling all aspects of their extensive supply chain. However, when expanding internationally, this advantage disappears and they're instead forced to compete alongside established businesses whom already understand their respective markets innately. Besides this, they mention that Alibaba has also only recently started to expand their footprint internationally. In 2014, the company claimed the record for the largest US-listed initial public offering after raising $25 billion from investors (Mac, 2014). Further expansion has been slow going, however. Rather than competing directly with America's established retail giants, Alibaba chose instead to focus on a strategy of partnership, as it decided to focus on "acquiring and collaborating [with] local firms" (Gereffi & Wu, 2018). While slower and much more difficult to integrate, this strategy helps play to Alibaba's strengths as a digital retailer as it lacks the main infrastructure necessary to pose a threat as a traditional retailer. They essentially only have two platforms that are truly designed for international commerce: Alibaba.-com and AliExpress (Gereffi & Wu, 2018). The former is a "global wholesale marketplace that connects Chinese manufacturers with overseas buyers", while the latter is an "international marketplace for consumers around the world to buy products and services directly from sellers in China (Gereffi & Wu, 2018).

In *Alibaba: A Case Study on Building an International Imperium on Information and E-Commerce,* Havinga, Hoving, and Swagemakers (2016) discuss the growth of Alibaba as a business, explaining the development from conception to its current position as one of the most influential businesses in the world. In particular, they focus on the company's status in the global market as well as its plans for international expansion. For example, regarding the latter, in 2013, the company actually invested $200 million in a US-based startup called Shoprunner, whose main business model is to act as an Amazon competitor by offering a paid service for quick shipping throughout the United States (Havinga et al., 2016).

## Research Framework

. In order to discuss Amazon and Alibaba, it's necessary to also explore the similarities and differences between the United States and China. In order to do so, I'll break down my argument into cultural, institutional, and networking perspectives, and explain each in a way that provides an in-depth analysis into that aspect of both countries:

*Cultural Perspectives:*

Both the United States and China have rich and storied histories, and are very culturally different as a whole. The plethora of complex issues involving the two countries would be too much to discuss in this paper alone. As such, I've decided to focus on two specific differences that are integral to the discussion involving Amazon and Alibaba.

- *Individualism vs. Collectivism*: The United States and China each have chosen to adopt a different cultural mindset through which to base their societies on. While the United States believes more in personal goals and the rights of the individual, China prefers to focus on group goals and what is best for the common good.
- *Business Etiquette*: Both the United States and China have different ideas on how an individual should act, especially with regard to business dealings.

*Individualism vs. Collectivism*

As a cultural ideology, individualism has been around for centuries, and has roots in both Ancient Greek philosophy and the Renaissance (Roland, 2017). The name was first coined by Alexis de Tocqueville, a French philosopher, in 1840 as he wrote of his experiences while traveling throughout America. In his writings, he equated individualism itself with equality, happiness, and personal freedoms, stating that:

> "Individualism is a mature and calm feeling, which disposes each member of the community to sever himself from the mass of his fellows and to draw apart with his family and his friends, so that after he has thus formed a little circle of his own, he willingly leaves society at large to itself" (Toqueville, 1856).

According to Li and Song (2003), individualism as a concept can be explained by comparing its definitions in three situations where it applies: economics, politics and culture. Economically, a person in an individualistic society is predisposed to put themselves and their interests first, before all others. Politically, individualism specifically incentivizes people to protect their personal freedoms and basic rights above all else. Culturally, under an individualistic society, a person is largely expected to be independent and self-motivated.

Collectivism is also an ideology that has also been around for centuries. In China, collectivist thought stems comes from Confucianism, which espouses common courtesy and respect towards others. Collectivism as a whole comes from socialistic ideals, and is characterized by a social framework in which the individual works in the best interests of the group whenever possible (The Editors of Encyclopaedia Britannica, 2007). Unlike individualism, people are encouraged under collectivism to “strictly abide by their own collective identity [and] obey superiors’ orders” (Yang & Congzhou, 2018).

Analyzing both individualism and collectivism under the same lens only goes to further highlight the cultural differences between the United States and China. While neither culture is inherently “better” than the other, both societies respect and espouse different ideals. In the context of the problem mentioned in this paper, it’s possible that these differences could cause difficulties with regard to international relations if not properly understood.

*Business Etiquette*

If a company is thinking of taking their business overseas, it stands to reason that they should familiarize themselves with the customs and societal norms of the location they are attempting to move to. Regarding the United States and China, there are many instances where engaging in regular business practices in one country can be confusing or even insulting to the other party involved. Some examples of this divergence include the following:

- *Pridefulness*: In the United States, the individualistic mindset that many citizens have causes them to value personal achievements highly. As such, many do not have a problem talking about their successes at length. In China, however, this is seen as quite selfish, due to one's achievements typically being a result of the efforts of a group of individuals, rather than any single person (Nowak & Dong, 1997).
- *Communication*: Many outside the United States would describe Americans as being "blunt" and very direct in their speech. According to Nowak and Dong (1997), with regard to business, Americans are especially aggressive in negotiations and other official dealings. They continue to mention that the Chinese, on the other hand, prefer to be polite and courteous to a fault, even preferring to tell a "white lie" to the other individual involved rather than disagree with them.
- *Business/Personal Life*: The Chinese value personal relationships very highly—much more than their American counterparts. They have no problem mixing business with their personal lives, and even encourage it to some degree (Nowak & Dong, 1997).
- *Deference to Authority:* Typically, Americans will not hesitate to challenge their superiors, even in a business setting. In most office environments, individuals are encouraged to collaborate and think of their coworkers as their "equals". However, in China, those superior to an individual are typically highly respected and never questioned unless absolutely necessary (Nowak & Dong, 1997).
- *Decision Making*: With regard to making decisions, Nowak & Dong (1997) explain that while Americans value expediency in most deals, the Chinese prefer to take their time

and consider all alternatives whenever able. Typically, they will also respond negatively whenever pressured in this scenario.

Obviously, these aren't the only instances where differences in etiquette can cause problems with relations abroad, but they help to illustrate a few examples of small acts that one culture might find innocuous, but another might find highly offensive. One must be mindful of their words and actions when involved in a situation similar to those mentioned above.

*Institutional Perspectives*

The institutions that make up both the United States and China are each very different as a whole. Notwithstanding individualism or collectivism, the two countries each have a very different mindset as to the role that the government should have in the daily lives of their citizens. Even so, in order to further the discussion about Amazon and Alibaba, I'll only specifically focus on the government's institutional role in the economy in this section.

- *Role of Government in the Economy*: In China, the government plays a predominant role in the economy, whereas in the United States, the government is limited to minimal regulation and doesn't have as much control.

*Role of Government in the Economy*

The United States and China both have very different opinions about how a government should function. Since 1789, the United States has been a constitutional republic, whereas China became a socialist republic in 1949, when Chairman Mao and the Communist Party overthrew the nationalistic government that was in place. In spite of these different opinions, however, both countries have implemented a similar form of market economy. A market economy, by definition, is “a system in which economic decisions and the pricing of goods and services are guided by the combined interactions of a country's citizens and businesses” (Chappelow, 2019).

Qianlan Wu (2007) explains that in the United States, the current iteration of the market economy “came into being naturally when the modern mass market emerged as a result of the Industrial Revolution.” He goes on to elaborate that the neoclassical economic theories that first influenced the creation of this market also hold that in order for the market to thrive, there should be minimal government influence and the motivation for further profit should be enough to drive the market to achieve its maximum potential. These theories mentioned essentially hold true today. The United States still maintains a very laissez-faire attitude with regard to the government’s influence on the economy, and has implemented primarily enough regulation to just ensure the minimization of corruption and other unsatisfying practices.

In China, on the other hand, the creation of their market economy did not come into being in such a “natural” way. Until 1978, China’s economy could only be classified as a command economy, in which production, investments, prices, and incomes were determined by the central government as they saw fit (Wu, 2007). In 1978, however, China enacted massive market-oriented reforms to artificially transition to a market economy. In the years following, they went through a long period of reconstruction, in which the central government “decentralized regulation, established a quasi-independent regulator, and greatly transformed regulatory competence” (Wu, 2007). However, Wu also writes that even after this transformation, the “central government [still] maintained its control over significant issues, including the degree of marketization, industrial development, state-owned-enterprise (SOE) reform, banking and financial reform, and the integration of the domestic market." In essence, even now, the central government still controls many important sectors of the Chinese economy.

*Networking Perspectives*

With regard to networking, both the United States and China have many human and non-human actants that help to differentiate the two countries. In this section, I'll specifically focus on the ramifications of such.

- *Social Media and the Internet*: While China has primarily adopted a model of censorship, the United States prefers a laissez-faire approach in which the Internet and social media is largely without much regulation. In the case of the former, the government is the entity that mainly controls what their citizens are able to view, while corporations, whom moderate their websites personally, are chief in the latter.

*Social Media and the Internet*

China has always been the champion of Internet censorship. For more than thirty years, they've deemed it necessary to regulate all information that their citizens are able to view. Interestingly enough, the majority of citizens are indifferent to this practice. A survey of urban Chinese citizens from 2000 to 2007 found that 80% agreed that some form of Internet censorship was necessary, and almost 85% said that they supported the government's stance (Wang, 2015) Beyond this, only 30% mentioned that they found online content reliable and 93% stated that the Internet was "unsuitable for children" (Wang, 2015).

On the other hand, America, since its founding, espoused the twin ideals of personal freedom and liberty. As such, the Internet in the country consists of no governmental regulation whatsoever. This doesn't necessarily mean that citizens are free to view whatever content they desire—it must also be in accordance with other governing laws. Beyond this, corporations and media entities, while not necessarily practicing censorship, do influence the content that individuals observe. Notwithstanding traditional advertisements, posts on sites such as Facebook or Reddit are often curated for a purpose. This has especially become evident in the current era, as "fake news" has now become commonplace. In the months preceding the 2016 election, Graphika, a social media intelligence firm, published a study that consisted of more than 700,000 Twitter accounts (Hindman, 2018). Their findings recorded more than 6.6 million misleading tweets that linked to "fake" or "conspiracy" sites, all of which were published in a single month (Hindman, 2018). Of all the accounts they studied, 80% were still active and publishing tweets as of 2018 (Hindman, 2018).

## Methodology

In order to answer the research questions posed, I'll provide a qualitative study that will specifically analyze press releases and other important information concerning the two companies in question, including their business models, growth figures, and history of management. In further discussion, I'll attempt to rationalize each company's reasons for acting how they did in specific situations with cultural factors whenever possible, with the goal of providing a definitive answer for the struggles of both Amazon and Alibaba to secure a competitive market share in China and the United States respectively.

## Data Analysis

As companies, Amazon and Alibaba are both e-commerce giants that have each secured the majority share of the online retail market in their respective countries of the United States and China. To provide further data, in 2019, Amazon controlled 37.7% of the United States market, while Alibaba enjoyed a reported share of Chinese retail exceeding 55.9% (Richter, 2019; eMarketer, 2019). In that same time period, Amazon reported revenue from retail sales of approximately $280.5B while Alibaba drew in $56.1B (Amazon, 2019; Alibaba, 2019). Overall, though, in spite of their status within their countries as the main forces behind online retail, the two companies are inherently different in many ways, including the following:

- *Founding/Initial Growth*: Both companies experienced unique founding circumstances and followed different strategies with regard to growth within their respective countries.
- *Business Models/Management*: Both companies have very different business models and management strategies as a whole. With regard to retail, for example, Amazon is a reseller of consumer goods while Alibaba is simply an online marketplace.

These differences, as well as others, help to characterize and differentiate the two companies from each other. In the ensuing case study, I'll make sure to address each of these individual points, and others, with respect to each company.

*Founding/Initial Growth (Amazon)*

According to Sandeep Krishnamurthy, Amazon was first founded in 1995, by Jeff Bezos, in Seattle, Washington. He writes that even initially, Bezos had a very specific vision for how

Amazon should be run as a company, as well as how it should fit into the growing ecosystem of the Internet. There were two main elements to his vision. The first was that "Amazon would [end up being] the world's most consumer-centric company. The second was that "[it would also become] the main 'place' [on the Internet] for consumers to buy anything from" (Krishnamurthy, 2005).

Although Bezos had lofty goals, Amazon began as solely a simple online bookseller. However, it was able to grow beyond its competitors due to two specific factors, both of which are explained below:

- *Innovation*: The usage of the Internet at this early stage was a huge benefit and allowed Amazon to process orders and do business at a level its competitors couldn't match. While brick-and-mortar bookstores such as Barnes & Nobles had far greater name recognition at the time, the convenience from Amazon's distribution structure helped it quickly gain ground among consumers (Krishnamurthy, 2005).
- *Value Proposition*: From its founding, Amazon preached four values: convenience, selection, service, and price. Each of these provided an important benefit to the consumer and helped to ensure loyalty at this early stage in the company's growth (Krishnamurthy, 2005).

As the company grew, it began to expand into markets beyond bookselling. By 1999, it now also sold music, DVD/videos, toys, electronics, tools for home improvement, software, and video games. The company also worked diligently to improve the online retail experience for the consumer, and introduced innovations such as "one-click shopping", product reviews, email alerts, recommendations, wishlists, and more (Krishnamurthy, 2005).

*Founding/Initial Growth (Amazon, Press Release #1)*

The first case to be examined in this paper regarding Amazon will be the first ever press release distributed by the company, on October 4, 1995, entitled "World's Largest Bookseller Opens on the Web." From the very beginning, Bezos immediately attempts to showcase what the company has to offer, explaining the innovations and improvements Amazon's made upon the traditional bookstore. He comments that "the Seattle-based company currently offers more than one million different titles, 40 times more than typical mall bookstores, and more than 5 times as many as the country's largest book superstores" (Amazon, 1995).

Amazon's value and mission were immediately evident from this statement. By just looking at the first heading in the press release, one is able to immediately understand their business and what they stood for. In just the first four weeks of life for the small company, it had shipped books to customers hailing from all fifty states as well as others from more than forty-five different countries (Amazon, 1995).

*Founding/Initial Growth (Alibaba)*

Alibaba was first founded in 1999, by Jack Ma, in China's Zhejiang province. Similarly to Amazon, Ma had a very specific vision for how he wanted to run the company. He believed that Alibaba's future was to become an "e-commerce ecosystem that [would] allow consumers and businesses to perform all aspects of their business online." He was reported saying that he specifically "want[ed] to create one million jobs, change China's social and economic environment, and make [Alibaba] the largest Internet market in the world" (Qing & Xue, 2009).

From the beginning, Alibaba actually experienced a lot of hardships on its rise to where it is today. As it was launched in 1999, it really only started to take off just as the dot-com bubble was beginning to burst. In 2002, for example, Alibaba made just $1 in profit and had only enough cash to survive for 18 months. (Qing & Xue, 2009). To keep the company alive, they developed a "product for Chinese exporters to meet U.S. buyers online," which ultimately ensured the company's survival and future growth. Since this, the company has not posted a year showing negative growth whatsoever (Qing & Xue, 2009).

Over the course of the next few years, Alibaba really began to take off. By 2003, Jack Ma began to design and found the following sites, each of which would soon become necessary to the Alibaba ecosystem:

- *Taobao (2003)*: A consumer e-commerce (C2C) website that would soon become the largest in the world. By 2005, it would secure a 59% share of the e-commerce market, eventually causing eBay to withdraw from China as a result. By November 2018, more than 660 million people would end up using Taobao monthly (Lihua, Hu, & Lu, 2009).
- *Alipay (2004)*: A third-party app designed for servicing payments. It would eventually become the largest mobile payments platform in the world, boasting more than 870 million users (Lihua, Hu, & L u, 2009).

- *Tmall (2008)*: An e-commerce (B2C) website intended for larger businesses. It would eventually become the second largest in the world, only behind Taobao. As of February 2018, it currently has over 500 million monthly active users (Lihua, Hu, & Lu, 2009).

Alibaba currently exists as an ecosystem encompassing each of the individual apps and services mentioned above and much more. Unlike Amazon, however, the company has made no effort to expand beyond the Internet or control any part of its supply chain beyond the marketplaces themselves.

*Founding/Initial Growth (Alibaba, Press Release #1)*

The first case regarding Alibaba to be discussed will also be the first ever press release they distributed. It was released on December 19, 2000, and entitled "Alibaba.com Partners with Four Leading Logistics Providers to Create Freight Forwarding Quotation and e-Contract System." The release itself is very formal, free of much descriptive text, and explains the current situation in detail. At this time, Alibaba has just finalized the "signing of revenue-sharing deals with four of the leading global logistics providers" (Alibaba, 2000). The four companies in question: Atlantic Forwarding, Geodis, Panalpina, and Schenker, have agreed to manage their online presences through Alibaba's platform. The platform itself gives them the capabilities to provide shipping quotations whenever necessary and reach binding agreements with customers through the Internet (Alibaba, 2000).

Alibaba's first press release is surprisingly mostly devoid of marketing or similar content, and serves primarily as a statement of achievement for the company. By the time that Alibaba makes this press release, they've already been in business for just over a year. In spite of this, however, the very first sentence in the release refers to them as the “world’s largest business-to-business marketplace for global trade” (Alibaba, 2000). While this may just be a characteristic of the emerging Internet, it’s interesting that they would refer to themselves as such.

*Business Models/Management (Amazon)*

In his paper, “Strategic Business Models”, Frederick Betz (2002) describes Amazon’s business model as being “strategically innovative.” By his definition, a strategic innovation model “provides a perspective for optimizing both short-term resources and long-term sales by rationalizing the use of profits and capital to implement innovation. Amazon, in particular, fulfills this definition due to it’s initial desire to grow without regard for its profitability—a strategy that it still follows even today. Whatever Amazon gains in profit and capital is used as a continuous input to further optimize its sales and resources.

Beyond this, with regard to Amazon’s retail platform itself, the company specifically espouses a subscription-based system of reselling consumer goods. The main benefits from buying into this “Prime” subscription includes much faster shipping on eligible inventory as well as being able to access Amazon’s library of streaming media, such as digital music or video content, similar to other streaming platforms, including Netflix or Hulu.

Amazon’s management strategy is also unique in many regards. Due to its strategically innovative business model, the company was able to grow as it continued to push profits back into the company. Over time, this policy shifted to one of vertical integration. Amazon didn’t want to just exist as an e-commerce retailer, it instead wanted to control all aspects of its supply chain, including distribution. In 2019, Amazon launched further initiatives regarding delivery, including its "Same-Day" service, that delivers items to its "Prime" customers the same day that they're ordered—a service that, because of this style of management, it now manages in-house (Amazon, 2019).

*Business Models/Management (Amazon, Press Release #1)*

On February 2nd, 2005, Amazon first implemented the "Prime" subscription model into their business. For a fee of $79 annually, subscribers were initially able to get unlimited, express two-day shipping for free, as well as overnight shipping for $4 per item. They were also allowed to share this service with up to four family members in the same household for no extra cost whatsoever (Amazon, 2005).

The introduction of the "Prime" subscription model was perhaps the most important part of Amazon's later success. By the end of 2018, it was estimated that there was approximately 101 million individuals just in the United States holding an Amazon Prime membership (Patrick, 2019). This figure, combined with the annual fee and that, on average, "Prime" members spent $800 more than non-"Prime" members on Amazon's platform, goes to show the magnitude of this subscription service with regard to the company's revenue.

*Business Models/Management (Amazon, Press Release #2)*

On July 17, 2006, Amazon announced the launch of its grocery initiative—a section of its platform that offers consumers a selection of over 1200 brands of food and organic goods.(Amazon, 2006). While a grocery store isn't a traditional choice for a retail company, it helps to illustrate Amazon's management decisions made with expansion in mind. Bezos' vision, "to become the main ‘place’ [on the Internet] for consumers to buy anything from, was starting to be realized at this point in time.

On August 24, 2017, Amazon finalized the acquisition of Whole Foods, cementing itself as a major player in food retail. Just 11 years after its “humble beginnings” as an online retailer that sold snacks to consumers, it now owned more than 500 grocery stores throughout the United States (Amazon, 2017). Amazon made sure to waste no time at all integrating them with its ecosystem. “Prime” members quickly became eligible for special savings and in-store benefits at every Whole Foods in America, providing yet another incentive to sign up for Amazon’s lucrative annual program (Amazon, 2017).

*Business Models/Management (Alibaba)*

In order to understand Alibaba’s business model, it’s necessary to take all aspects of the Alibaba ecosystem into consideration, including Taobao, Alipay, and Tmall, as each contributes to the sum total revenue and profit. Initially, however, according to Yazdanifard and Li (2014), Alibaba didn’t charge to list and trade on their marketplaces as a way to attract clients. Yet as time passed, they eventually began to earn revenue in a few ways:

- *Listing/Membership Fees*: Although there are still options for sellers to list their items for free on Alibaba’s marketplaces, in order to actually be noticed and make any sales, it’s become necessary to pay in order to become a “Gold Supplier”, at the very least (Yazdanifard & Li, 2014).

- *Advertising Fees*: If a supplier wants to advertise their business on one of Alibaba's marketplaces, they can do so through cost-per-click (CPC) bidding platforms or by purchasing display ads if the possess the money (Yazdanifard & Li, 2014).
- *AliPay Service Charges*: In order to calculate the service fee for a transaction on AliPay, an individual can use the following formula: "Fee amount = total CNY transaction amount * exchange rate * fee rate" (AliPay, 2019).
- *Value-Added Services*: Alibaba also contains a number of services that users can pay to use, including a wholesale transaction platform, a program for loans, website development software, and more (Yazdanifard & Li, 2014).

Unlike Amazon, Alibaba's management strategy can actually be described as being "normal". Rather than focus on convoluted strategies of vertical integration, Alibaba prefers to instead continually improve its marketplaces and e-commerce system whenever able, as shown with the advent of AliPay. Not only this, Alibaba as a concept is fundamentally unique with regard to other e-commerce platforms. Rather than owning any merchandise themselves, the company instead works to help small businesses by providing them an online sector through which to sell their goods. While it stands to reason that this method may not very profitable, it also doesn't require that much revenue to support. This in turn has allowed for Alibaba to focus on providing a much more expansive ecosystem.

*Business Models/Management (Alibaba, Video Release #1)*

The first video case to be examined in this paper involves Jack Ma's commentary on a CNBC international news segment hosted on YouTube, entitled "Jack Ma on how Amazon and

Alibaba Differ”. As evident from the title, the content of the clip itself is simply Jack Ma defending his “asset-light” market strategy in a direct comparison to Amazon’s “asset-heavy” approach. Ma explains that while he believes that Amazon and Alibaba’s strategies may both have merit, his vision for Alibaba itself is a company that attempts to empower small businesses rather than acting as an “empire”, which he equates to Amazon (CNBC International, 2017).

Without considering the moral implications of Alibaba or Amazon’s business models, Ma also makes a good point regarding the distribution network that would be necessary to have if a company wanted to personally fulfill the hundreds of millions of orders made. It would be almost impossible for Alibaba to make the transition now—it took Amazon more than a decade to acquire the necessary infrastructure and revenue necessary to hire workers.

An interesting cultural point that Ma makes is that he stresses that the Chinese people are “patient” when asked about the waiting time for packages. Obviously, if Amazon’s distribution system were present in China, packages would be delivered much faster, but this isn’t necessarily the first thing taken into consideration by the Chinese.

*Chinese Expansion (Amazon)*

Amazon first entered China as a bookseller in 2004 as it acquired Joyo.com, but it struggled to compete with rival company DangDang and gained a reputation of being “more expensive than other online platforms (Li, 2019). In 2011, the company rebranded to Amazon China and attempted to expand further into retail markets by selling more than just books (Li, 2019). This venture was ultimately not successful, however, and by 2015, the company was only able to acquire a market share of 1.1%, behind competitors JD.com and Alibaba’s TMall, each of which possessed a share greater than 20% (Li, 2019). Four years later, the company made the decision in April 2019 to shut down its Chinese operations and leave the country for good (Li, 2019). Their failure can be attributed to two main reasons:

- *Lack of Market Knowledge:* Amazon solely attempted to replicate their success using their American business model and did not consider the desires of Chinese consumers.
- *Micromanagement*: In spite of Amazon China existing as an extension of the company itself, Bezos did not give them the autonomy necessary to succeed. Amazon's executives forced them to enforce a strategy that simply is not feasible in China, in spite of its success in the United States.

Regarding their lack of market knowledge, as they entered the Chinese market, Amazon immediately made the mistake of trying to replicate their success in America by using the same business model and strategy. In 2001, Jeff Bezos adopted the "flywheel theory", in which a business is compared to a "flywheel" (Lunan & Shui, 2016). It's incredibly difficult to get a "flywheel" to start moving, but eventually it'll start to generate its own momentum and work independently. In Amazon's case:

> "…Lower prices led to more customer visits. More customers increased the volume of sales and attracted more commission-paying third-party sellers to the site. That allowed Amazon to get more out of fixed costs like the fulfillment centers and the servers needed to run the website. This greater efficiency then enabled it to lower prices further. Feed

any part of this flywheel, they reasoned, and it should go and accelerate the loop" (Stone, 2013).

While this theory worked very well in the United States, it makes specific assumptions about Chinese consumers—namely that they're able to be swayed by reputation and solely lower prices. In spite of this, Amazon refused to promote their business locally and didn't account for how price-sensitive the Chinese market truly is (Lunan & Shui, 2016). A side effect of Alibaba's platform structure—of having hundreds of thousands of merchants sell individually on a single platform—is that competition is extremely fierce and prices are extremely low. Amazon was not willing to fight this war, and thus they lost the edge with regards to pricing. For most Chinese customers, Amazon was not their first choice with regards to retail (Lunan & Shui, 2016). They would typically only visit the site if other options proved unfruitful.

Beyond this, from the very start, Amazon's executives effectively handicapped Amazon China as they saw it necessary to westernize "management" and similar processes. Rather than give the branch the autonomy necessary to succeed in a new market, they saw fit to manually control two of the most important sectors: operations and logistics (Lunan & Shui, 2016). This decision, rather than streamlining matters, only stood to hamstring the day-to-day dealings of the company itself. Hanhua Wang, the president of Amazon China for more then seven years, remarked on more than one occasion that this structure was a "pain point" (Lunan & Shui, 2016). In spite of his status, he didn't even have the right to make the decision to change something as simple as product packaging or shipment schedules.

*American Expansion (Alibaba)*

American investors and consumers primarily first took note of Alibaba after its initial public offering on the NYSE in 2014, which raised $25 billion (Mac, 2014). Ever since, the company has been working to gain traction in the United States. In spite of this, the effort has mostly been unfruitful, as shown from the region only contributing $1.2 billion to Alibaba's annual revenue (2.5%) in 2018 (Richter, 2019).

Although Alibaba's failure isn't quite as set as Amazon's, its current relationship with American consumers is most likely going to end in failure. Similarly to Amazon, There are a few specific reasons why Alibaba has been unsuccessful thus far with regard to its e-commerce market share in the United States. These include:

- *Infrastructure Troubles:* Alibaba does not possess the logistics necessary to standardize delivery. If merchants in the United States want to use their platform, they're going to need to ship goods to and from China, and deal with the paperwork and costs that arise.
- *Protectionism:* A symptom of Chinese governmental reforms, China's government does not want foreign competition on their shores. There's many measures in place to inhibit such, including mandates for business and customs licenses, restrictions on how much money can leave the country, and more (Balding, 2017).
- *Counterfeiters/IP Theft:* Alibaba allows almost any merchant to create an account and sell on their platform. It's a known fact that they host a large number of counterfeiters and individuals whom will steal your IP to resell without your consent

Overall, however, each of these points can be dealt with in time. Unlike Amazon, the majority of their failures are due to measures beyond their control and the fact that they're entering a market that already happens to be heavily dominated by a few companies in particular, including Amazon.

## General Discussion

As made evident in the case study, both Amazon and Alibaba are two radically different companies that just happen to inhabit the same sector of the market. Whether or not these radical differences are culturally-based, however, is much harder to answer. Jeff Bezos intended Amazon to be the world's most consumer-centric company", as well as "the main 'place' [on the Internet] for consumers to buy anything from" (Krishnamurthy, 2005). Jack Ma, on the other hand, wanted Alibaba to become "an e-commerce ecosystem that [would] allow consumers and businesses to perform all aspects of their business online." He also held the desire to "create one million jobs, change China's social and economic environment, and make [Alibaba] the largest Internet market in the world" (Qing & Xue, 2009). While semantically different, both of these visions draw from a few similar points. Notwithstanding the grandiose ideas, both founders intended, on their company's creation, to develop with a consumer-first mindset. The main difference, at this point, is simply the type of individual that each company believes their consumers will consist of.

As Amazon was first located in Seattle, Washington, Bezos grew his company on ideals that the typical American citizen believes in. It's not surprising that his value proposition: "convenience, selection, service, and price," resonated with a lot of Americans in Amazon's early days. Not only this, Amazon's initial press release, specifically titled "World's Largest Bookseller Opens on the Web" leveraged the new, exciting nature of the Internet and was a great piece of marketing that really got people interested in the company.

Alibaba, on the other hand, was created in China's Zhejiang Province. Ma was much more reserved with his company in the early days. While the company were initially successful, at least with regard to venture funding, it stumbled when the dot-com bubble burst. If not for a bit of luck, Alibaba would have most likely gone bankrupt in 2002. Beyond this, however, in contrast to Amazon, the company's first press release really only goes to highlight an achievement that the company followed through with, rather than a piece of advertising. This goes to show a completely different mindset than the one espoused by Jeff Bezos and Amazon.

Notwithstanding their differences upon creation, however, one main point of similarity between the two companies is that both are equally having difficulties expanding into the other's domestic market. While this may on the surface look like a testament to the market dominance that they both independently possess, these difficulties could also be a symptom of a fundamental misunderstanding of the other's market or an effort to force themselves into a situation where they are not needed.

It seems clear that Amazon, in particular, did in fact suffer from both a misunderstanding of the market and a lack of understanding of specific cultural factors that help to differentiate the United States and China. Until 2014, when they withdrew, the company attempted to replicate their success in the United States by using a business model and strategy that simply did not translate to the Chinese economy. They weren't prepared to deal with the fierce competition that resulted from the hundreds of thousands of merchants present on Alibaba's platforms and couldn't offer competitive pricing—an important selling point for them when they were first starting out as a company (Lunan & Shui, 2016). They also refused to give Amazon China the autonomy necessary to succeed in a new market and saw fit to manually control two of the most important sectors of the business: operations and logistics (Lunan & Shui, 2016). More so than this, they even made no effort to integrate their business on apps such as WeChat or accept payments from AliPay, both of which would have incredibly beneficial to their business (Lee, 2018).

Alibaba's failure, on the other hand, can't be attributed as much to a cultural misunderstanding. Their three main issues beyond the established competition—infrastructure troubles, Chinese protectionism, and counterfeiters—aren't necessarily easy to solve, but yet also aren't related to cultural factors in the United States. In this regard, it seems clear that Alibaba has a much greater chance of success in America than Amazon had in China.

## Conclusion

It seems clear that Amazon and Alibaba's difficulties in expanding into the other's domestic market are more complex than just the established competition. Amazon, in particular, seemed to have a fundamental disregard for the cultural differences between the United States and China, while Alibaba is suffering from its lack of infrastructure outside China and other external factors, such as Chinese protectionism and a surplus of counterfeiters on their platform.

Regarding future implications, it seems logical that this case study could provide a rationale as for why it's important for a business to attempt to understand a market before they enter, no matter how well-known they are. The fact remains that Amazon is perhaps the largest and most successful company in the world, and yet they were unable to compete with established Chinese businesses solely because they refused to adapt to the market.

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