

An Empirical Analysis of the Diversification Strategies of Internet Enterprises——Taking Alibaba Group as an Example

Hanghang Ma^{a,*}

Institute of Economics, Shanghai University, Shanghai, China

^a HHM_1046@163.com

*corresponding author

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Abstract: In recent years, with the rapid development of China's Internet industry, there have been industry giants such as Alibaba, Tencent holdings, meituan reviews and so on. The growth and strength of these enterprises is closely related to their commitment to scale economy and market expansion diversification strategy. However, diversification strategy is a double-edged sword, which can not only disperse business risks, but also lead to various business problems. In order to demonstrate the above problems, this paper takes the diversification process of Internet giant Alibaba Group since its establishment as the main line, uses case analysis method, trying to analyze its scientific diversification layout from the perspective of enterprises and points out its shortcomings in the diversification process. It is found that its diversification strategic layout is scientific and the main line is clear, but in recent years, blind expansion and malicious competition have also appeared In view of these problems, this paper puts forward corresponding suggestions for the diversified development of Internet enterprises.

1. Foreword

1.1 Research Background

Since the listing of Alibaba in the United States in 2014, as of 2019, Alibaba has passed the fifth year since its listing in the United States, and has accounted for more than 90% of the share in the e-commerce field, becoming a veritable giant e-commerce enterprise In the 20 years since its establishment, Alibaba has obtained a large number of customer resources in hundreds of countries and regions and industry-leading e-commerce service technology, forming a relatively complete network service platform and its own ecosystem. Not only has it achieved fruitful results in the Internet field, it has also expanded its market size through a series of diversification strategies, avoided industry risks, improved its core competitiveness, and won the trust of consumers.

1.2 Research status at home and abroad

Hill (1985) research pointed out that diversified management can enable enterprises to use market power more vigorously, and they can grow and grow rapidly when operating efficiency is not dominant. [7] Jensen (1986) believes that under the mode of modern management and ownership separation, professional managers will quickly expand the scale of enterprises to show their own capabilities for the purpose of enhancing their own value and obtaining more rewards and rights The most obvious method is to implement a diversification strategy. This type of behavior ignores the interests of shareholders and pursues scale growth instead of maximizing corporate value. Shin and Stulz (1998) used US listed companies as a case study and found that the internal capital allocation efficiency of diversified companies will be lower than that of external capital markets. Internal companies tend to rely more on internal financing resources and reduce the capital flow. The degree of emphasis and sensitivity cannot improve business performance. David P (2010) research believes that most business owners believe that they can get more profits from diversification, and ignore the healthy growth of enterprises. In order for enterprises to adapt to

market development, they need to carry out their own operating system. Adjust to achieve healthy growth by optimizing corporate structure. Jeong JS et al. (2014) believe that diversification mainly refers to companies opening up entirely new markets. Even if the new market may overlap or overlap with the current market, there will be companies that are born with new technologies and products. In the process of market diversification, it needs to match its own risk tolerance. Wu Shanshan and Li Chunhong (2018) take the impact of diversification strategy on LeTV's financial risk as a case study and believe that diversification expansion is the preferred strategy for many Internet companies' current development. It is concluded that companies should carefully choose diversification expansion based on their own strength and external environment the direction will maximize the effectiveness of the diversification strategy. [1] Shang Zhiyong (2019), by analyzing Alibaba's diversification strategy, it means that it may cause resource dispersion and management quality decline in the process of diversification, low service quality in logistics and weak price control, etc. It is believed that enterprises should allocate resources reasonably and improve utilization efficiency; diversify business portfolios and flexible capital turnover; acquire or control high-quality logistics companies to improve the quality of logistics services. [3] Yang Yuguo (2019) selected Tencent to analyze the financial effects of the China Music Group after mergers and acquisitions. Through mergers and acquisitions, the financial effects of the enterprise can be achieved, but the financial effects also have positive and negative points. The coordinated financial effects are generally conducive to enterprise development. [8]

1.3 Insufficient existing programs and the advantages of the research program in this article

At present, domestic research on corporate diversification strategies mainly focuses on the use of empirical research methods to study the performance and risk of a company's merger and acquisition cases, while ignoring the necessity and strategicity of its diversified strategic choice as an enterprise. It is impossible to explain the implementation of various mergers and acquisitions from an enterprise perspective. Foreign diversification strategy researchers focus on corporate value, operating performance, and internal and external resource integration, and do not systematically consider multiple factors for individual companies. This article attempts to explain the pros and cons of corporate behavior by analyzing a series of corporate diversification strategies, and to provide experience for Internet companies to diversify.

2. Research methods

The case analysis method is suitable for answering "why" and "how" questions. The analysis method is representative, systematic, profound, and specific. The Alibaba Group selected in this article as a case study mainly has the following reasons.[2]

First, Alibaba has been developing for more than 20 years. It is another Internet model with global influence after Yahoo, Google, eBay and Amazon. It has experienced more than 90 strategic acquisitions and mergers in its development process. [5]The industry's development experience is representative of its diversified strategic process research and attribution of success or failure.

Secondly, Alibaba Group's business involves many different business fields such as payment, cloud computing, and entertainment. At the beginning of its establishment, it had a clear corporate vision and a strategic vision for the future. At present, its huge business coverage, the complete Alibaba ecosystem is Many Chinese Internet companies are excellent candidates for learning.

3. Alibaba Group Introduction and Analysis of its Diversification Strategy

3.1 Alibaba Group Introduction



Figure 1. Alibaba office building picture

Alibaba Group was founded by Jack Ma in 1999[3]. At the beginning of its establishment, Alibaba had a clear market positioning, aiming to build the infrastructure of the future business, so that the sustainable development of the enterprise lasted at least 102 years. In fact, Alibaba currently does the cause is working in this direction. Today, Ali not only creates a first-class e-commerce platform, but also develops a diversified Ali ecosystem. Its core business involves B2B platforms (Alibaba) and B2C platforms (Tmall) , C2C platform (Taobao), online shopping search engine (Yitao), payment business (Alipay), group purchase platform (ju bargain), Internet information, email, search and other basic services (Yahoo China), data center business (Wanwang) .[9]There are hundreds of millions of Internet users from more than 240 countries and regions.

3.2 Alibaba's diversified strategy analysis

3.2.1 Concentrated strategy with online business community as the service target

Alibaba was originally an Internet enterprise whose main business was to build an online sales platform. That is to say, its main service objects were concentrated on corporate or individual Internet business groups. Through the platform, it helped sellers complete tasks such as purchasing, sales, and information display. The two major platforms of Taobao Tmall, which are the main sources of traffic and income, are the gathering places for B2C and C2C businesses. In addition, Ali actively develops O2O business, acquires Gaode Map and Kuaidi Taxi, and in recent years has launched "Hello Bike", which further enriches the Group's O2O business category and penetrates all aspects of people's travel. As the leading big data marketing platform in China, Alimama covers 98% of netizens, provides booths for advertisers, and creates a "product-communication-marketing" full-link marketing solution for merchants. Alibaba holds large-scale Internet business conferences every year to increase user stickiness and strengthen the business capabilities of Internet businessmen. Various indications indicate that Alibaba Group's main service targets are online business groups that are mainly SMEs and individuals.

3.2.2 Scale expansion based on relevant diversification strategies

Alibaba Group's Alibaba website has been ranked as one of the "Best B2B Websites in the World" for seven consecutive years. Its excellent performance is inseparable from Alibaba's extensive website maintenance experience. After Alibaba launched Taobao and Alipay in 2003. Even more powerful, according to a survey, Taobao's market share has soared from 72.2% to 78.7% in 2007, and Alipay became the country's largest independent third-party electronic payment platform in the second quarter of that year. It is precisely because Alibaba Group has implemented a diversified strategy that it can achieve such brilliant achievements. In recent years, the Alibaba Group has repeatedly made extraordinary moves, developing cloud computing, digital media and entertainment, innovative business and many other businesses. The company's core competitiveness

has been significantly improved, resources have been integrated to complement each other's advantages, and the Ali ecosystem has been enriched and improved. [6]

3.2.3 Adopt first move strategy and vertical merger strategy

The Internet industry has strong demand for innovation and fast update iterations. It requires companies to seize opportunities and gain first-mover advantage while maintaining industry-leading technology. Alibaba's strong rival in the C2C market is eBay. In 2003, China's C2C market was still a blue ocean. In order to prevent competitors from eroding the domestic market and hindering the development of Alibaba in this industry, Alibaba Group launched Taobao. However, this move did not prevent eBay and eBay from entering the Chinese market in 2004. If it were not Alibaba's first mover strategy, perhaps in such an environment, it would be difficult for Taobao to grow to what it is today. In addition, the fierce competition in the Internet field places higher demands on enterprises, and enterprises must be able to accurately grasp the development of the industry. Both B2B and C2C must rely on a strong search engine as a support, so Alibaba Group is not hesitating to invest heavily to build and improve. [10] In 2005, the acquisition of Yahoo China by Alibaba Group strengthened Alibaba's search capabilities and played a synergistic role in Alibaba's e-commerce business. In 2013, Alibaba extended its logistics terminal and held a rookie post to help the e-commerce platform complete the last mile of services. The reason why Alibaba Group is able to complete the construction of a huge ecosystem is inseparable from the extended development in the industrial chain of various industries.

3.3 Disadvantages of Alibaba's diversification process

3.3.1. Radical expansion, high investment risk

Big data is the core competitiveness of many Internet companies. As the top Internet company in China, the importance of building a data platform is self-evident. Alibaba has always focused on globalization, domestic demand, and big data cloud computing as its three major development fulcrums.[11] However, due to the fierce competition in the Internet industry, development opportunities are fleeting. In order to seize the opportunities in the development, Alibaba often turns passive to active, often using high equity to exclude competitors and invest in leading enterprises. However, such investments often involve huge risks, and blind expansion further hides the risks from long-term development. Taking Alibaba's investment in Yahoo China in 2005 as an example, Alibaba sold 40% of its high equity to acquire Yahoo China. However, due to the high proportion of equity, Alibaba's senior executives almost lost their actual control of the company. After that, Ali paid a huge It took effort to redeem 21% of the shares from Yahoo in 2014. There are too many similar examples. For example, Alibaba launched an APP for competing with Tencent WeChat. Because of the lack of mobile software development experience, it could not jump out of the e-commerce culture and ended in failure.[4]

3.3.2 Malicious competition intensifies, leading to both losses

At the beginning of the prevalence of online car-hailing software, the best ones were Didi and Kuaidi. In 2014, in order to overthrow the other party's own exclusive market, the two major taxi softwares had an unprecedented money-burning battle for three months. Both of them want to realize the O2O business expansion through taxi software and seize the opportunities in the mobile payment port market. Among them, Tencent's 100 million financing has arrived first and launched a crazy "burning money" model. It is on the offensive. Ali is not weak and invests more intensive subsidies, which continued until May of the same year, lasted for more than three months. However, what followed was that the two companies entered a stage of differentiated development, out of the period of endorsement for payment, Didi and Kuai began to focus on the expansion of the ecological range, involving all aspects of people's travel, and also changed from a clear fight to infighting. . Perhaps it was the realization of "when the grievances were reported" that the malicious competition was difficult to end. It was not until 2015 that the "marriage" of the two companies completely ended the war without smoke, but the billions of dollars of cash flow consumed by the

subsidy war It really became an internal injury of the two companies.

4. Suggestions on the process of Alibaba's diversified expansion

4.1 Based on its own business objectives, select a reasonable target enterprise

From the lessons learned from Alibaba's acquisition of Yahoo's loss of equity, it can be seen how important the target evaluation is before the merger. As a listed company dedicated to e-commerce, Alibaba should fully evaluate whether the target company or industry is linked to its own business before the merger, and After investment, your own competitiveness and profitability must not blindly invest in order to enter a new hot industry.[1]

4.2 Avoid malicious competition and avoid financial risks

With the prevalence of diversified operations, the diversified operations of China's Internet industry have gradually matured. During this period, it is inevitable to get involved in the emerging fields of the Internet industry. In the areas with low entry barriers, there will inevitably be fierce competition. However, as investors, to maintain rationality, they should avoid irrational behaviors of crazy money to grab market position.

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