B Amazon Versus Alibaba: Amazon is Amazing, but can Alibaba Dethrone it?

Amazon

Amazon belongs to the quartet of business giants – Google, Apple, Meta, and Amazon – collectively known as “GAMA”. While Apple and Meta have relatively straightforward and well-known business models, Amazon’s is more complex. Seemingly a simple e-commerce multi-sided platform, Amazon offers a variety of services and products connected through an infrastructure that is invisible to the end customer. An online retailer before becoming a multi-sided platform, now only a small part of Amazon’s revenue comes from e-commerce activity.

Since its inception in 1995, Amazon did not generate yearly profit until 2003 (it reported a quarterly profit in the Q4 of 2001), eight years after it was founded. This made it appear a risky proposition, leaving founder, Jeff Bezos, struggling to find investors. Things were not helped by a lack of infrastructure to support digital business in the early days of e-commerce, as it scaled up.

To counter this problem, Amazon developed its own infrastructure by developing specific business models for different aspects of the business. For instance, in 1998, Amazon patented the “1-click” system, allowing customers to purchase an item with a single click. Until 2017 (i.e., until the patent lasted), other businesses paid a license fee to the company for using this technology. Similarly, Amazon also launched a marketplace named zShop (now renamed Amazon marketplace) in 1998 to bring third-party sellers on its platform. This, effectively, was the foundation of Amazon’s emergence as a multi-sided platform.

As these matured, together they created an ecosystem that was of value to other businesses. It is this ecosystem that has enabled Amazon to move beyond being just a multi-sided e-commerce platform. In 2003, the company launched Amazon Web Services (AWSs), by licensing its platform to other businesses. The early version allowed developers to use and customise Amazon’s platform for their use. By 2006, Amazon had launched cloud services in the form of AWS, which Microsoft and Google were yet to do. This provided them a head-start in the Software as a Service (SaaS) market (see Chapter 6 on sharing economy) and established them as a technology service provider. In fact, the company went a step further and launched AWS Marketplace – a multi-sided platform for software products – in 2012, thereby drawing on its expertise from the technology and platform businesses. In line with its strategy of developing the infrastructure, it also acquired a robotics company – Kiva Systems – in the same year, to automate its fulfillment centres.

Note: Appendix B by Sebastien Ronteau

https://doi.org/10.1515/9783110762556-012

In its core business, sensing the move to the digital version of books, Amazon launched Kindle in 2007 (for eBooks) and acquired Audible (for audiobooks) in 2008. This was followed by the acquisition of Twitch – a social video game streaming site – in 2014. This way, the company ventured into the bit-vendor category discussed in Section 3.2. Amazon Prime, for instance, besides targeting e-commerce customers, also provides an infrastructure for developers of applications like the Kindle Fire or Fire TV and publishing tools such as eBooks for Kindle, as well as the shipping infrastructure for Amazon Fresh.

Drawing from the long tail strategy, Amazon also acquired businesses in certain sectors to enter certain segments. For instance, after a limited presence in the shoe market, Amazon acquired Zappos, a prominent shoe shopping site with a loyal customer base, in 2009. Similarly, after struggling in the grocery delivery market, Amazon acquired Whole Foods in 2015.

Many of these business models, on their own, are not unique to Amazon. However, taken together, this constellation of business units most differentiates Amazon from other large businesses like Google, Apple, or Facebook. This enables Amazon to generate revenues not only from its marketplace and reseller activities but also in other ways. For instance, many companies in sectors from banking, social media, and travel through to entertainment, productivity and healthcare now use AWS, so much so that when in early 2017 there was an outage of AWS, 60% of the Internet was inaccessible. Such is the volume of transactions that Amazon's revenues now exceed those of Facebook and Google (Alphabet).

Amazon CEO, Jeff Bezos, says that the development of this galaxy of services and products is motivated by the desire to "sell and deliver stuff to customers". Amazon's definition of "stuff" is extensive, encompassing not only physical and digital products but also services. The company is further differentiated by its prices, which are lower than those of other physical and online merchants in what is a commoditised market.

Following the idea of a long tail, a large selection also makes Amazon a one-stop shopping destination, putting it on top of consumers' minds as a single point-of-sale for everything. The convenience of the user interface and the ergonomics of the website add to a positive user experience, which includes shipping capabilities and the company's mastery of the supply chain. In every respect, Amazon is an innovator.

For example, it uses predictive shipping to ensure local warehouses are appropriately stocked with items of interest to that area's customers. The algorithm anticipates the trends that will drive higher sales of certain items in specific locations by drawing on data from site visits, traditional media, social media influencers, social media listening, and other sources.

This means Amazon can determine that it is likely that 100 people will buy the new Dan Brown novel next week and accordingly ship 100 copies to the warehouse so that when customers push the "buy" button, their book is delivered to their doorstep within two days. This fast shipping means customers avoid the inconvenience and cost of travelling to a physical store, enabling Amazon to compete with physical retailers locally.

Amazon's strategies have been effective in changing the way customers buy and consume products. Just think about Kindle, a "digital book reader" Amazon launched despite its disrupting its own business model as an online seller of physical books. However, in creating the Kindle, Amazon was offering its consumers extra value. By working backwards from where customers like to read, Amazon solved a problem for many in urban areas who want to read while commuting to work on public transport but find hardbound books heavy, cumbersome, and taking up too much space in their bags.

With Amazon offering base-model Kindles at low, subsidised prices in anticipation of generating future sales of digital books with an inventory cost of almost zero, suddenly commuters had an inexpensive device holding thousands of books in a fraction of the space of a paperback. Moreover, if they used a Kindle app, they did not even have to buy an e-reader because they could read any digital title on the smartphone or tablet that they already owned. A publishing tipping point was reached in 2012 when on Christmas Day, Amazon's sales of digital books exceeded those of physical books.

Amazon adopted a similar strategy for B2B services. They changed the way how software was delivered – from software as a product to software as a service. While the world was still relying on on-premise technology infrastructure and software installations, Amazon launched cloud-based AWS services in 2006. Google and Microsoft could follow the suit only after a couple of years in 2008 and 2009, respectively. In this situation, it is no wonder that in 2019, one-third (33%) of the cloud market was still owned by AWS, with Microsoft being a distant second at 16% and Google with a meagre 8% of the cloud market.

In contrast, eBay largely remained an online marketplace. While it acquired PayPal – a third-party payment provider – in 2002, the latter spun off from the former in 2014. eBay's primary source of revenue is still in the form of transactions, with secondary revenue coming from marketing services (e.g., advertisements on its site). This demonstrates that eBay is a much more traditional e-commerce business than Amazon. It relies primarily on the intermediation between sellers and buyers and has not followed Amazon by selling its infrastructure/services or venturing into other domains.

Alibaba

Being the biggest eCommerce company in China, Alibaba is often compared to Amazon. However, upon closer inspection, one finds that Alibaba combines elements from Amazon, eBay, and Google, with a dash of PayPal thrown in.

The biggest share of Alibaba's business comes through TaoBao marketplace, on which Alibaba matches the buyers and sellers. In this regard, it is closer to eBay than to Amazon since Alibaba does now own an inventory and engages in direct sales. However, unlike eBay which charges the sellers for the listing, listings are free on Taobao. Instead, taking a leaf from Google's playbook, Alibaba offers marketing tools to sellers through its TaoBao marketplace. While it is free to sell on the platform, sellers must pay if they want to be visible and rank higher in searches. This strategy, which is like Google AdWords, provides the income that subsidises the platform and allows it to remain free to users.

While Amazon offers a single marketplace (disregarding AWS marketplace that is for software) for eCommerce retail, Alibaba operates several marketplaces aimed at different segments. While Taobao is geared towards the traditional retail marketplace open to any seller, TMall is a branch of Alibaba that acts as a marketplace for established international brands to access Chinese customers, while AliExpress allows Chinese manufacturers and retailers to target international consumers.

Alibaba has separate offerings in the B2B marketplace. While 1688.com is geared towards domestic B2B business, Alibaba.com aims to become a leading marketplace for global B2B business. Alibaba is also present in the B2B cloud market, with its offering Alibaba Cloud, since 2009. It is the biggest cloud service provider in China and Asia-Pacific.

Alibaba also has a payment system, named Ant Financials, which is like PayPal. However, it also acts as a bank that offers loans to small and micro businesses. This combination of Alibaba's branches creates a highly appealing galaxy of services. Perhaps not surprisingly, at its initial public offering, the biggest in US stock market history, Alibaba was valued at nearly 50% more than initial estimates. A domestic market in China of almost 1.4 billion people, approaching four times that of the US, puts Alibaba in a dominant position. Moreover, with China as a worldwide manufacturing hub, Alibaba can connect directly with manufacturers and suppliers. To exploit its potential, Alibaba has invested in what they call Cainiano Network to provide logistics services and supply chain management solutions for order fulfillment.

In terms of threats to Alibaba's growth in non-Chinese markets, protectionism may be a factor as the US moves towards policies that limit foreign companies' ability to expand into its market. However, even if Alibaba's marketplace cannot operate in the US, its banking system and financial dynamics might be able to, even if indirectly, as their social media branch, WeChat, could function as an interface through which users pay for goods and services. With its ability to combine social media, digital currencies, and mobile at a global level, Alibaba could shape global e-commerce trends in the future.