LOCALIZATION AND ADOPTION OF B2B/B2C BUSINESS MODEL IN RUSSIA:

CASE STUDY OF ALIBABA GROUP HOLDING LIMITED

Master’s Thesis by the 2nd year student

Concentration – International business

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# ABSTRACT

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**Description of the goal, tasks and main results**

The goal of the paper is to fill the research gap by an in depth case study of localization and adaptation of Alibaba Group Holding Limited's business model components (AliExpress platform – B2B/B2C) in Russian market.

The tasks are following:

- Identify and describe initial business model and value proposition components in China
- Identify, describe and compare adaptation (or lack of adaptation) of each component of business model in Russian market

The result of the study revealed that each component of business model is transformed and adapted to the local specifics of Russian market. Moreover the value proposition in both countries differs slightly.

**Keywords**

### АННОТАЦИЯ

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| Описание цели, задач и основных результатов | Целью данной работы является заполнение научно-исследовательского пробела путем выявления особенностей адаптации компонентов B2B/B2C бизнес модели в России на примере платформы AliExpress, принадлежащей компании Alibaba. Сформулированы следующие задачи:  
- Выявить и описать основные компоненты бизнес модели и факторы ценности компании на китайском рынке  
- Выявить, описать и сравнить модификацию (или ее отсутствие) каждого компонента бизнес модели на российском рынке  
- Создать теоретическую базу для будущих исследователей  
Результаты исследования показали, что каждый компонент бизнес модели адаптирован и изменен согласно условиям на российском рынке, а так же ценность компании для клиентов отлична в обеих странах. |
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1. INTRODUCTION

1.1 Research background

Due to the high Internet penetration the power of digital platforms to profitably disrupt industries continues to impress. Platform leaders such Amazon, Facebook, Google, Baidu, Airbnb, Uber and Alibaba redefine user experience and expectations. Their ongoing success pushes incumbents to alternately revisit core business assumptions and seek regulatory relief. Digital platforms are becoming more successful substitutes of existed traditional market. These models create value of the platform for different customers as well as create ecosystem around.

A lot of these platforms started locally and become global but that doesn’t make them “Born Global Company”. What distinguishes Born Global from international companies is that Born Global companies from their beginning have global focus and commit resources to international ventures. Born Global companies gave special characteristics which distinguish them from international companies. These characteristics include leader international orientation, experienced management team and others which are described in details in 2nd Chapter.

Alibaba is one of the best examples of Born Global companies. Moreover Alibaba is not only Born Global but also Born Digital multi-sided platforms which connects more than two segments together (should be mentioned that in Russia there is no 100% Born Global Digital platform because different processes, partners make company to have some offline processes). Alibaba Group was established in 1999 by 18 people led by Jack Ma, a former English teacher from Hangzhou, China. Since launching its first website which helped small Chinese exporter and entrepreneurs to sell internationally, Alibaba Group became a leader in online and mobile commerce globally. Today Alibaba Inc. operates leading wholesale and retail online marketplaces as well as Internet-based businesses offering advertising and marketing services, electronic payment, cloud-based computing and network services and mobile solutions, among others (see Alibaba’ official website).

Last few years relationships between Russia and China developed significantly, thanks to different theme years such as “Year of Chinese or Russian language”, “Chinese tourism in Russia/Russian tourism in China” cooperation between countries became deeper and wider. Moreover because of the Western sanctions Russia started more intensive cooperation with Asian countries. Due to the strong relationships between Russia and China it is very important to analyze
strategy and policy of Chinese and world №1 e-commerce platform which is called AliExpress (in China works as B2B mainly while in Russian both B2B/B2C mainly) in Russia and the way company adapts components of its business model in Russia. Alibaba management team has already set huge sights on Russian market. In the official page of AliExpress there is already an opportunity to buy some items which are stored in Russia, which decreases price and delivery time. This opportunity is called Russian Moll. All users can order a limited variety of items with a big discount from stores located on the territory of Russian Federation. Moreover in addition to office in Moscow Alibaba is going to open new office in Russia – in Saint-Petersburg. AliExpress entered Russian market in 2012 and already managed to become the most popular e-commerce platform in country. The variety of products sold there for a quite low price attracts more and more customers.

1.2 Research goal, question, and gap of research

The goal of the master thesis is to identify the way Alibaba Group Holding Limited adopts its B2B/B2C business model components in Russia.

The research question of the master thesis is the following: how B2B/B2C business model components are adapted on the example of Alibaba Group Holding Limited?

The research gap of the master thesis is the B2B/B2C platforms business components localization and adaptation in Russian market.

1.3 Research strategy and structure of the paper

The present study starts with the digital platform industry background and analysis of international entrepreneurship multi sided platform. The study is explorative and uses a single case study as a research strategy. The object of the study is AliExpress and its localization in Russia.

There are four chapters in the master thesis. The first chapter is the introduction to the study. Second chapter is devoted to the industry background as well as to the theoretical background of the study. Third chapter is devoted to the research methodology and the results from the empirical study. Moreover, third chapter provides information related to the comparison of AliExpress business model in China and in Russia. The fourth chapter provides an overview of the results from the study, theoretical and managerial implications as well as limitations of the study.
2. THEORETICAL BACKGROUND: TOWARDS THE MULTI SIDED PLATFORMS

2.1 Born Global: main characteristics, types, competitive advantage, similar concepts

Alibaba is a Born Global company and it is important to look how this type of companies was studied and analyzed in the past. In this part main characteristic of Born Global companies together with their competitive advantage and similar concepts will be analyzed.

The “Born Global” phenomenon originated with Michael Rennie (1993), who studied firms established with the capability to compete internationally and manage resources across different countries (Jones, 2011). Born Global phenomenon was studied by many researchers; the theory about it was evaluated from its origins. The concept of Born Global was first studied by McKinsey consultants who made a conclusion that Born Global companies are characterized by exporting at least 75% of total sales and started in their first 2 years of operations (McKinsey & Company 2008). The first article where Born Global concept appeared was written by Tamer Cavusgil in 1994:

There is emerging in Australia a new breed of exporting companies, which contribute substantially to the nation's export capital. The emergence of these exporters though not unique to the Australian economy, reflects 2 fundamental phenomena of the 1990s: 1. Small is beautiful. 2. Gradual internationalization is dead.

(Bernatd, 2015)

There are a lot of different factors which can explain the existence of Born Global companies. One of the key researchers in that industry Madsen & Servais identified most important factors (Madsen & Servais, 2014). The first reason is the change of market conditions, when the domestic market is becoming for the company too small and narrow so the company has to find new market and new opportunities for growth. Second reason is the development of technologies which made internationalization process much easier than in the past (for example unifications and standardization of processes and products in different countries). Third reason is the capability of managers and founders to do business internationally.

One of the most important factors which can explain a phenomenon of Born Global is the management’s team agreement on internationalization. Moreover company’s ability to standardize products and services, marketing are also important.
While understanding Born Global concept it is very important to understand characteristics of Born Global companies which were described by many researchers. One of the characteristics is the lack of resources and assets both tangible and intangible (P. McDougall, 2013). It is natural for the young company to have difficulties with financial resources and knowledge of the industry. Another factor is a large influence of the background of the founder and managers of the company (Madsen & Servais, 2014). Their education, previous working experience, cultural background affects the internationalization process of the company.

One of the most popular researchers in this field Oviatt & McDougall identified six main characteristics of successful Born Global (Oviatt & McDougall, 2015):

1. Managers of the company have international experience which helps them to understand new market and conditions
2. From the origin of establishment a company has global vision
3. A company has a strong international networking which give company an opportunity to succeed
4. Company has a unique product or service
5. Company always work on R&D and create new products of add new features to the existing ones
6. Company is integrated globally which means that all operations and processes in the company are coordinated and regulated.

Moreover McDougall & Oviatt identified four main types of born global companies basing on the number of countries they operate in and the number of activities by the company. According to their theory companies which have a few activities across countries are called export-import start up. These companies operate both like importers and exporters and their most competitive advantage is the knowledge about the logistic. Second type is companies which serve a few countries – they are called geographically focused start-ups. Their competitive advantage is the coordination of the different value chain, knowledge and production. Third type is companies which serve more than 4-5 countries – they are called multinational traders, while a fourth type is called global startups - they coordinate many activities across different countries. Figure below illustrates types of international New Ventures by Oviatt & McDougall.
Born Global companies have many competitive advantages. One of the main advantages is the development of technologies. McDougall, Oviatt and Shrader stated that Born Global companies focus of innovative differentiation, good quality and customer’s services in comparison to traditional companies (McDougall, 2014). Born Global companies perform “faster and better than competitors” due to their outward approach of looking for opportunities and creating networking system in global market. Figure below illustrates the conceptual framework of formation of company’s sustained competitive advantage. It is seen from the figure below that there are two main components: international entrepreneur capabilities and positive psychological capital. International entrepreneur capabilities mean international experience, knowledge, learning capability, risk taking capability and international networking capability of the founders and of the managers which form the competitive advantage of the Born Global Company.
Nowadays Born Global companies play a big role in the trading system between countries. Phenomenon of Born Global companies appeared in 1980’s but since time goes and technologies develop the image of Born Global Company changed. Now Born Global Company operates successfully by providing service or selling goods based on online platform. Digital Platforms with different business models become the great threat for traditional market. Almost all research in the past about Born Global companies was made based on the examples in North America, Europe or Australia – developed regions. Nowadays emerging markets and developing countries such as China are playing big role in the global arena and international trading.

Due to the internet penetration and global digitalization of the market hi-tech startups and digital platforms often become Born Global companies. Even the smallest enterprises can be born Global (McKinsey&Company, 2008). Today’s digitally powered startups are mainly born global—they attract users, hire talent, purchase inputs, secure funding, and find mentors across borders from day one. “‘Born Global’ is becoming the new ‘Born Digital’. Social media and digital platforms giving local start-ups global reach increasingly facilitate ‘born global’ start-ups (Lucton, 2016).

The case examples of Born Global digital platforms are Facebook, AirBnb, Uber and Alibaba, eBay, Amazon, etc. From their origin companies were oriented on the global market – companies had global vision, a product or service was unique and company spent a lot of money on R&D. Digital platforms easily extend and spread their operations throughout the world by using digital component of the business. Digital platforms allows to connect many sides of the business by providing diversify service for each segment.

Alibaba is one of the examples of Born Global Company. Description of six main characteristics of successful Born Global Company identified by Oviatt&McDougall is implemented towards Alibaba in the next chapter (Oviatt&McDougall, 2015). It should be mentioned that from the origin of establishment Alibaba founder and management team had global vision on the company’s development and operations in the future. Alibaba focused on a differentiation strategy. The development of differentiated designs and highly distinctive products that often target niche markets, initially, but with capabilities to roll out to wider audiences and become scalable is one the company’s features.
2.2 Born Digital

Born-digital enterprises are “a generation of organizations founded after 1995, whose operating models and capabilities are based on exploiting internet-era information and digital technologies as a core competency” (Gartner, 2015). Over the last few years the extension of technological and digital companies can be observed. Born Digital companies have a great impact on the tradition business by substituting it. One of the examples of Born Digital platform is Facebook which coordinates suppliers and buyers in terms of value creation. This industry is becoming more and more intensive in terms of rivalry. In some countries local platforms compete with international for example in Russia Vkontakte successfully compete with Facebook, in China Alibaba competed with Amazon so that Amazon left the market.

In order to be able to compete and win in digital platform market a platform should not only offer a service but create the whole ecosystem around it as it will be described for Alibaba further. Companies that want to be platform leaders should follow two principal strategies. The first is coring strategy: the way how transform a product into a platform. The second strategy is tipping: which explains the way how platform can win in the market. Tactics can include penetration pricing and subsidies, building coalitions of customers, and providing powerful incentives for complementary (Gawer, 2008). Gawer and Cusumano’s strategic options are summarized in the table below.

<table>
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<th>Strategic option</th>
<th>Technology Actions to Consider</th>
<th>Business Actions to Consider</th>
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<tr>
<td><strong>Coring:</strong></td>
<td>Solve an essential “system” problem</td>
<td>Solve an essential business problem for many industry players.</td>
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<tr>
<td></td>
<td>Facilitate external companies’ provision of add-ons</td>
<td>Create and preserve complementors’ incentives to contribute and innovate.</td>
</tr>
<tr>
<td></td>
<td>Keep intellectual property closed on inwards of your technology.</td>
<td>Protect your main source of revenue and profit.</td>
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<tr>
<td></td>
<td>Amsintsin strong interdependencies between platform and complements.</td>
<td>Maintain high switching costs to competing platforms.</td>
</tr>
<tr>
<td><strong>Tipping:</strong></td>
<td>Try to develop unique, compelling features that are hard to imitate and that attract users.</td>
<td>Provide more incentives for complementors than your competitors do.</td>
</tr>
<tr>
<td></td>
<td>Tip across markets: absorb and</td>
<td>Rally competitors to form a</td>
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Table 1. Company’s strategic options (Gawer, 2008)

| Bundle technical features from an adjacent market. | Coalition. Consider pricing or subsidy mechanisms that attract users to the problem. |

### 2.3 Multi sided platform and its business model

As it was already highlighted in the previous chapter the role of Digital Platforms is significantly increasing. These platforms no longer play in the local market but by being Born Global they expand throughout the world and substitute traditional market. Majority of Digital Models use Multi Sided Platform which allows targeting more segments of customers, develop extent ecosystem around the company and therefore increase revenue. Main components of multi sided platform and business model of Alibaba will be described in the chapter.

**Multi-sided platform**

Alibaba is a representative of multi sided platform (MSPs). In August 2010 McKinsey company published an article (Jacques Bughin, 2010), which stated that the twenty-first century is the era of multilateral business models in the world economy (multisided business models). Multilateral business model, according to experts from of McKinsey, create value through the interaction between different players (parties) to a greater extent than in the traditional one interaction - one (the seller - the buyer) or in the traditional exchange of information.

This category of business models got its name due to the fact that it is based on multilateral platforms (multi-sided platforms): basing on this platform a company in various forms provides an access to interested partners to their customers or users with offers of products or services that complement the offer itself company. MSP is an organization which acts as intermediaries and combines groups of participants in the multilateral platforms through a variety of platforms, products, services, networks or combinations (Yablonsky, 2013). They exist for a long time, but it flourished only with the spread of information technologies. The main requirement for the existence of MSP is the presence of two or more different groups of users that the organization serves. The main value created by a platform is the result of interaction between users groups. In its simplest form, the model can be represented as the interaction of several groups of people who are equally interested in participating in
the efforts of the parties to establish joint platforms and content for which they are willing to pay. As it is seen from the graph below there are two fundamental features of the MSP:

— Direct interaction between two or more sides
— Affiliation of each side with the platform

Direct interaction means that all sides keep control over the interaction between each other. Affiliation means that users of all sides make investments which are necessary if they want to be able to interact with each other directly. Affiliation is the crucial feature which helps MSP to create cross-group network effect. Figure 10 illustrates the MSP fundamental features.

Network users access a common platform that facilitates their interactions. Platforms is usually a set of components (hardware, software, services), rules (technical standards, protocols for information exchange, policies, and contracts that govern transactions) employed by users in most of their transactions and strategy (implementation, platform design, mobilization, monetization, bundling, envelopment) (Yablonsky, 2013). MSP business model always should be related with MSP strategy. All this forms main platform building blocks. Figure 3 illustrates MSP fundamental features.

Figure 3. MSP fundamental features (Yablonsky 2013)

Alibaba is a MSP since it serves different sides: potential customers use the platform to search for good they want to buy, small and big businesses can advertise and publish goods they offer, and third party as a payment system is also included in this platform. The cornerstone of the platform and its development is network effect. Its essence lies in the fact that the value for the consumer platforms increases with the number of customers, especially in cases where they are active content creators or providers. For each platform, there is a critical mass of users of one type needed to attract users of other types. Network effect means that the value of the Alibaba platform depends on the amount of users. For
example more users are registered on the website-more revenue the company gets and more brands will be offered on the platforms, at the same time more goods and brands are presented on the platform – more customers will register.

**Business model** In order to compare Alibaba performance in different countries and study internationalization process factors and components which will be studied and compared should be implemented. These components are parts of the business model which will be described in the following chapter. As BM of the Alibaba Company is the strategic framework which is adapted in each country it is natural to investigate the specifics of BM components of internationalization.

For the first BM concept was used in the annotations to scientific works on economic issues in the late 1940s, and in the 50s and 60s it appeared in the context of business games for the leaders. Ghaziani and Ventresca in 2005 made the analysis of the use of term “Business model” in public talks. (Ghaziani&Ventresca, 2010). They analyzes articles from 1975 to 2000 and as a result they concluded that this term was mentioned about 1729 times, where only 166 publishes were made between 1975 and 1994, the rest was mentioned in the period 1995-2000 – which revealed the increase of the popularity of that term.

Some researchers think that the increase of the popularity of Business Model term related to the growth of the Internet. Until the second half of the 90s the concept of the business model examined in the context of corporate strategy. Interest to the business model as a tool to describe the differences between the new Internet companies from each other and from traditional business emerged during the dotcom boom, and business modeling approach was used to present startups to the investors who were unfamiliar with them. As a result business model term was associated mainly with IT companies.

In 20th century this term is used widely and the awareness of “business model” rise significantly. This term consists of two words. “Business” means commercial activity while “model” is ‘a standard or example for imitation or comparison’ (Ostewalder, 2016). Therefore “business model” describes how the company buys and sells goods/provide service Business model represents a set of systems and processes that create value of the company for the customers and helps company to develop relationships with both customers and suppliers (Saunders, 2015). In 20th century there was almost no concrete definition of the term “business model”.

Osterwalder created a conceptual toll to describe business model of the company. He created so called drawing, according to which the company operates. This business model canvas was first described in the qualification work for during his degree of doctor of philosophy in 2004, and in 2010 developed in the book “Building a business model”. Canvas is a business model in the form of nine
interconnected blocks including characterization of key resources and processes involved in the creation of values, customers and interaction with them, the value proposition, cost structure and revenue. This model is widely used in different areas and in Universities. Businessman and researchers use it to describe the business and the way it operates. Moreover this model is one of the most appropriate for the description of the startup company since it describes all components of the business and makes its structure clear. The figure below illustrates business model canvas.

![Business Model Canvas](image)

**Figure 4.** Business Model canvas by Osterwalder (Osterwalder, 2016)

One more important concept to study in the field of MSP is the MSP pattern presented by Osterwalder in his book “Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers”. He describes 5 main business model patterns: Unbundling, Long Tail, Multi-sided Platform, Free, and Open. The principle based on which these patterns are distinguished is the dominance of one of the business blocks from BM canvas. For example, long tail business models are value-proposition centric. Free business models are revenue stream centric. Platform business models are resource centric. Multi sided platforms are resourced (Advertising, Brokerage) centric.

As it was already mentioned before there are 5 models but the most interesting one for our research is Multi Sided Platforms. They create value by facilitating interactions between different groups and their value grows according to the extension of network effect. They create value as intermediaries by connecting these groups. The key idea in MSP BM is that the platform attracts and serves all groups simultaneously in order to create value. The platform's value for a particular user group depends substantially on the number of users on the platform's “other sides.” The figure below represent MSP pattern graphically.
The number of segments in MSP is 2 or more. As it will be described further, Alibaba for example has four main segments in China – buyers, local sellers, international seller and advertisers. Each segment has its own value proposition and revenue stream. Moreover all segments are closely connected to each other and one segment can’t exist without another (for example sellers and buyers). Their connection is called network effect – more the number of one segments more the number of another one.

A two-sided platform has four network effects:

- A same-side effect for each side, i.e., preference regarding number of other users on own side
- A cross-side effect in each direction, i.e., preference regarding number of users on other side
- Each effect can be positive or negative.
The example of cross-side effect is advertisement on VKontakte. Large number of VK users attracts advertisers, but users are not attracted by advertisers and advertisers don’t influence user’s choice to use this platform. If the network has positive effect the number of all customer segment of company increases and growing.

Relating to the cost and revenue structure of the MSP it should be mentioned that the main costs are always platform maintains, customer acquisition and marketing. Main revenue streams come from advertisement and click for pay. Since platform are digital main promotion channels include web 1.0, 2.0, mobile advertisement and sometimes traditional media such as TV and outside advertise ment.

**Value proposition.** One more useful model introduced by Osterwalder is Value Proposition canvas (Ostewalder 2016). This canvas helps company in terms of creation of the value for customers. It is graphically illustrated by the figure below.

There are two main parts: value map which include products&services, fain creators and pain relievers and customer profile which includes gains, pains and customer job. In the following part all components will be described.
**Customer profile** describes a specific customer segment in the business model in a structured way.

— *Customer Job* describes what a customer is trying to get done in his/her work as expressed their own words. Moreover there are three main types of jobs: functional jobs – when a customer tries to perform or complete a specific task; social jobs – when a customer wants to gain power or status and personal jobs – when a customer is looking for emotional state.

— *Pains* describe negative outcomes, risks related to the customer’s job. Customer pain is very important and in order for a company to succeed it should make pains concrete, company should understand how the customer measures pain severity in order to create better pain relievers. Developed feedback system helps a lot in solving this problem.

— *Gains* describe outcomes customer wants to achieve as well as benefits customer is seeking for. There are different types of gains such as: required (ex. Functions for the phone), expected (ex. design of a new model), desired and unexpected. As with pains it is very important for the company to describe these gains concrete and clearly differentiate jobs, gains and pains.

**Value map** describes features of a specific value proposition in the business model in a structured way.

— *Product&service* means the list of all services and products company offers/sells and value proposition is built around them. Different types of products can be created but the main classification includes four types: tangible, intangible, digital and financial.

— *Pain revenue* explains how products and services alleviate customer pains. Osterwalder gives a list of different trigger questions which can help the company to think about different ways its products and services can help the customer. It is very important to find which pain relievers are more and which are less important for the customer.

— *Gain creators* describe how products and services create customer gains. Osterwalder provides a list of trigger questions which can help the business to understand how products can help to obtain outcomes and benefits expected or required by customers.

The ideal performance is when value map meets customer profile, in other words, when products and services produce pain relievers and gain creators that match jobs and gains that are important to customers in the particular country market.
2.4 Business model adaptation

Product adaptation theory and business model adaptation were studied by different researchers. There are a lot of different frameworks within which adaptation of the business can be analyzed. In this part the most applicable theoretical thoughts will be described.

There are a lot of internal and external factors which influence the process of adaptation (Wernerfelt 2016). The one proposed below belong to the professor from the Michigan State University – Roger Calantone (Calantone, 2014). Internal characteristics include openness to innovations while external include product or service adaptation to the market. These factors directly influence the strategy company should follow to adapt its business. Moreover it is important to look at the market similarity in order to understand which element from the local market can be applicable to the new one (Cavusgil 2014). Figure below shows internal and external factors of adaptation graphically.

**Figure 8.** Adaptation internal and external factors (Cavusgil, 2014)

As Cavusgil (2014) defined the product adaptation strategy is a planned set of actions which company follows in order to meet local market consumer’s requirements and values. Some researchers point out that it is important to first understand customer value and expectation from the market and after that adopt the strategy and business model while some researchers highlight that at first company should implement new model based on the internal analysis of the market (companies business analysts of the company analyze the market) and then the strategy can be created and if some element should be changed this process starts after the strategy is implemented (Cavusgil, 2014). Moreover it is
important for company to be open to innovations – since this is one if the crucial factors in product adaptation in the new market. Openness to innovations determines to which extent company will stimulate innovations in marketing activities (Stottinger, 2014). Analysis of the market similarity is also important in the process of product adaptation. Similarities include government regulations, economic conditions, consumers lifestyle and value (Cavusgil, 2014). Market similarity is crucial for the product adaptation since adjusting internal strategy according to external business environment helps to perform great in the market.

One more framework of the e-commerce adoption is introduced by the Rashid – professor from the Massey University (Rashid, 2015).

The framework consists of 4 main blocks which influence the adaptation of the e-commerce product or service. This framework was studied based on the New Zealand medium entrepreneurs who entered European market successfully. A framework for EC adoption is graphically presented in the graph below.

**Figure 9.** EC adaptation framework (Rashid, 2015)

*Technological factors*

These factors include: relative advantage complexity, compatibility, cost and image. Relative advantage means companies potential and existed value preposition in the market and readiness to adapt it to the new value of the customers. Complexity refers to the structure of the company and a set of elements operations which should be adapted to the market: more elements are included more
complex is the adaptation process. Compatibility has two meanings: the first one is the operations compatibilities and IT compatibilities with the market and the second one is the compatibility of the service with customers value and expectations. Cost refers to the cost of the IT part of the adaptation to the new market and the image means the brand preservation after the adaptation.

Organizational factors
These factors correlate with the environmental factors. When company enters new market it is important to understand if the specialization correspond to the local market environment and has a potential demand. Moreover it is important to consider if the size of the company could help to maintain all changes and support them financially.

Environmental factors
This block is crucial in company’s adoption strategy. When company enters new market it is important to analyze competitors, pressure by buyers and suppliers opportunities. Moreover it is important to consider not only direct competitors for example B2B market only, but also indirect such as B2B or C2C since it can influence company’s performance. Moreover it is important to understand a government regulation in the sphere company is operating in order to measure the legal attractiveness of the market and therefore the potential success.

Individual factors
These factors include mainly company’s employers and CEO readiness and willingness for innovations and knowledge of the market. When company enters new market it is important to include not only employees from the market of origin but also local representatives with different background. This would help to get more insight in the market conditions.

2.5 Research framework

In order to summarize theoretical part of the framework of the study is introduced. First of all Ostelwalder’s Business Model Canvas (henceforth, BMC) and Value Proposition Canvas (henceforth, VPC) described in the chapter above will be applied to the AliExpress business model in China.

In order to compare company’s performance in different countries and study how the company adapts its strategy in Russian market we decided to take BMC and VPC as the core base for the comparison analysis. We supposed that some BMC and VPC components will change according to the market company operate at. Based on these business model conclusions about the
company’s adaptation the result of adaptation strategy will be presented. Therefore the research framework of the study is the following.

![Research framework](image)

**Figure 10.** Research framework.


3.1 Case study methodology justification

This chapter is devoted to the methodology justification of the research and provides main results of the empirical study. In order to answer research question the qualitative research approach is chosen. Approach used in the research is a cross country case study. First part of the chapter is devoted to the detailed explanation of the research approach. Second part is devoted to the analysis of AliExpress business model components and their adaptation and localization in Russian market.

Case study is an “Empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence” (Robson, 2016). Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships (Soy, 2010). The main purpose of using cross country case study method is to define, analyze and evaluate
Alibaba internationalization process in different countries. In order to visualize method of the study a plan of research is presented below:

![Qualitative research diagram](image)

**Figure 11.** Research plan

As it is seen from the table above there are three main parts of the qualitative research. First one is cross country case which was described above and will be described in more detailed in the following parts; the next one is in depth interview with the representative of Alibaba Company in Russian office and the last one is the questionnaire with 127 Russian respondents. Overview of data books would be useful for the deeper particular part of the survey.

### 3.2 Data collection process and analysis

*Primary data collection and analysis (interviews)*

There are a lot of different types of data collection such as self-report, observation, psychological method, interviews, focus group, questionnaires and others. Since we are using case study method different types of collecting data can be used. Data for the research is obtained mainly by cases and interview with company representative.

The main goal of the research interview is to explore the views, experiences, beliefs and or motivations of individuals on specific matters. Qualitative methods, such as interviews, are believed to provide a “deeper” understanding of social phenomena than would be obtained from purely quantitative methods, such as questionnaires (Kay E J, Blinkhorn A S., 2004).

There are three main types of research interviews:

1) Structured (Interview where all questions are organized and listed with little or no variation and with no scope for follow-up questions to responses that warrant further elaboration) (Thomson 2014)

2) Semi-structured (Includes both structured and unstructured questions)
3) Unstructured (Preconceived ideas which are presented with little organization). Generally only considered where significant 'depth' is required, or where virtually nothing is known about the subject area.

In the research semi structured type of the interview will be used. This type will help to obtain more information about the problem. In the following figure steps for interviews will be presented and described.

Interview allows getting information from the first source. Step 1 – pre data collection includes selection of case, which is already selected as Alibaba Group. Access to the respondents is obtained by the email and Skype. Step 2 is the next step which includes interview itself, transcripts of the interview and analysis and conclusions of the results and data obtained in the interview.

The goal of the interview was to get insights of AliExpress strategy in Russia, understand main promotion channels, key activities, key resources and other components of business model. Moreover we expected to get information about regulations in that sphere and attractiveness of the market. Interview was conducted by Skype call with the sales manager of Alibaba in Moscow office – Ivan Terkunov. Questions which were asked during the interview can be observed in Appendix. Results from the interview allowed to gain some inside information about Alibaba strategy and business model in Russia, get to know environment in the market, main competitors, Alibaba’s plans for the future and regulations in e-commerce sphere. Information from the interview is used in the description of AliExpress strategy in Russia with a citation – (Terkunov, 2017).

Moreover in order to understand how the platform works in China a short interview was hold with the representative of Chinese company who sell his products on AliExpress platform – Li Zhao. He works in a lighting sphere and sells some parts for the lighting construction by the platform. Interview with him was conducted by the Skype in both English and Chinese. Ability to speak Chinese helped to gain some information but due to the limitation of vocabulary not as much data as supposed was gained. Information gained during the interview allowed to understand customer relationships of AliExpress, promotion channels and some regulations on the platform.

Primary data collection and analysis (questionnaire)

In order to describe Alibaba value proposition in Russia and some components of the business model such as customer relationship and promotion channels a questionnaire was sent by
VK to respondents who use AliExpress platform to buy online. Total number of respondents participated is 127. The questionnaire was sent directly to the respondent to the followers of AliExpress official page in VKontakte. Data was collected during one month. Questions which were asked can be observed in Appendix.

Secondary data collection

Since Alibaba is very popular company it got a lot of attention from mass media, scholars and business men so there is plenty of reports about the company’s performance and international expansion strategies. Jack Ma – the founder of the company is very active in social media and at different political and economic forums so there is a plenty of recorder interviews and his speeches to which it is not difficult to get access.

When data is collected the analysis of it starts. There are two steps in the analysis process. First the overview of the company, its history, business model, position in the market and operations in China and localization strategy in Russia is provided. Second, the comparative analysis of localization strategy in Russia is described. The following chapter is devoted to the Alibaba Group Holding limited overview.

Time horizons

Time horizons are needed for the research design independent of the research methodology used. There are two types of time horizons namely Longitudinal and Cross-sectional (Saunders, 2015). Longitudinal studies are repeated over an extended period. Cross sectional studies are limited to a specific time frame. Due to the restriction of the research cross sectional studies will be used.

Validity

“Validity is a goal rather than a product; it is never something that can be proven or taken for granted” (Maxwell, 2015). The validity of this particular research will be established on Yin’s four criteria for case studies: Construct validity, internal validity and Reliability.

1. Construct validity will be achieved by using different sources of data collection: interview, case analysis and questionnaire. Results from that data will be compared to the company’s publication in order to increase construct validity;
2. Internal validity is only used in causal and explanatory research – which is the case in this research, as this study tries to identify and explain adaptation of Alibaba business model;
3. **Reliability** represents the validity of replication of the study. The researcher will be an active part of the research and be influenced by the data collected.

3.3 Overview of Alibaba Group Holding Limited

**History.** Alibaba Group Holding Limited was established in 1999 when Jack Ma a founder of the company founded the website Alibaba.com (Alibaba official website). Web site was an online platform which connected Chinese manufacturers with overseas buyers. A wide variety of different products in more than 40 industries are exchanged on the website: agricultural items, furniture, clothes, accessorizes and furniture. One more platform is AliExpress – an international B2B marketplace that focuses on small businesses from all around the world. This website gives opportunity for a small business to buy a small quantity of goods at a wholesale price. AliExpress became one of the most popular Alibaba platforms in China and managed to occupy almost 50% of B2B sector (Alibaba official website).

China trade among small businesses which is now called 1688.com was founded in 1999 (Alibaba official website).

Since 1688.com was founded it evolved into a wholesale channel for businesses on the retail marketplaces to source products. At the beginning 1688.com was focusing more on serving the procurement needs of Taobao suppliers and by the end of 2013 it became the top choice of Taobao sellers for procurement.

Taobao Marketplace – one more platform, was established in 2003 (Alibaba official website).

Now it is the largest C2C online shopping platform in China. The popularity of Taobao can be explained by a few factors: free registration and commission free transaction (since a free third-party online payment platform is used). Between 2003 and 2005 the market share of Taobao grew from 8 to 59% while the share of Ebay (the main competitor at that time) decreased from 79 to 36% (Kimler, 2014). Originally Taobao was launched as a defense against eBay taking over Alibaba’s customers.

In 2008 Taobao introduced a B2C platform called Taobao Mall. Tmall is a platform for local chinese and international companies who want to sell goods to consumers in China, Hong Kong and Macau. In 2013 Tmall occupied 51.3% of Chinese B2C market. In order to attract more international brand Tmall even released an English guide about how to establish brand in Tmall (Fu, 2015).
One more platform introduced by Alibaba was the Jishuasuan – a website for group shopping. Website offers “flash sales” (sell goods which are available only for a limited period of a time).

Alibaba Group Holding Limited introduced not only different ecommerce marketplaces, but also ecommerce products & services and adjacent markets. Alipay is an ePayment service that keeps cash in escrow until goods arrive. It is similar to PayPal system and is established to address the issue of trust between buyers and sellers online. Nowadays Alipay is the most widely used third-party online payment system in China (about 50% of all electronic payment services in the country use Alipay).

Another platform introduced by Alibaba was eTao.com – which was launched in 2010. eTao offers search results from almost all Chinese online shopping platforms. By using eTao consumers can compare prices for different goods and sellers.

Adjacent markets by Alibaba group include Aliyun.com and Laiwang. Aliyun.com is a platform for companies which help them to manage and store data in the cloud (cloud computing service). This service is integrated with other Alibaba businesses and helps for example AliExpress sellers to use Aliyun’s data processing and data storage. Nowadays Aliyun is the Chinese largest cloud-computing platform.

Laiwang is the chat application that allows users to find friends, make chart groups, share photos, videos, maps and audio and video messages. It is the main competitor for Wechat – the most popular mobile messaging app in China.

In two figures below the summary of the part above can be observed. Figure 18 illustrates overview of major companies within Alibaba Group. Main e-commerce market places and their characteristics can be observed in Appendix.

<table>
<thead>
<tr>
<th><strong>Ecommerce marketplaces</strong></th>
<th><strong>Ecommerce products &amp; services</strong></th>
<th><strong>Adjacent markets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taobao.com [C2C]</td>
<td>Etao.com [shopping search engine]</td>
<td>Laiwang [mobile chat app]</td>
</tr>
<tr>
<td>1688.com [B2B]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tmall.com [B2C]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jishuasuan [Group buying]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aliexpress [B2B]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 12.** Overview of major companies within Alibaba Group
Regulatory challenges. Alibaba operates in a quite new sphere for government regulations. Law for digital platforms is quite new but already a few restriction and challenges are existing. In May 2016 Chinese Ministry of Commerce announced that brakes are going to be put on the accelerating brushing activities on e-commerce platforms (Zhao, 2017). The monitoring system of the online platform company operations is going to be more tough and restricted. Moreover, Alibaba relies on the internet infrastructure which means that it relies on the government since all access to the Internet in controlled by stated-owned telecommunication operators under the control of Ministry of Industry and information Technology of China. In March 2014 a law on Protection of consumer rights and interest was revised. New law included regulations according to which e-retailers got more liabilities in term of user’s information protection and no time limitations for sending back returned products. Taxation was always a big problem and issue between online and offline retailers. A tax for online retailers was much lower for a long time. In April 2013 The State Administration for Taxation announced a requirement for online retailers to issue official invoice with each transaction (Zhao, 2017).

Financial highlights and rankings. Alibaba is a successful company which shows high financial highlights, growth of capital and stands on the highest positions in different rankings. In order to prove the success and importance of the company some financial highlights and rankings will be presented.

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Net income</th>
<th>Income from operations</th>
<th>Total assets</th>
<th>Total equity</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>52,504</td>
<td>23,403</td>
<td>24,820</td>
<td>111,549</td>
<td>30,417</td>
<td>22,072</td>
</tr>
<tr>
<td>2015</td>
<td>76,204</td>
<td>24,320</td>
<td>23,135</td>
<td>255,434</td>
<td>157,423</td>
<td>34,985</td>
</tr>
<tr>
<td>2016</td>
<td>101,143</td>
<td>71,289</td>
<td>29,102</td>
<td>364,450</td>
<td>249,539</td>
<td>36,456</td>
</tr>
</tbody>
</table>

Figure 13. Financial highlights of Alibaba Company (Alibaba, 2016)

In the table above main financial matrix of the company can be observed. It is seen that the revenue of the company doubled during last two years from 52,504 bln CN to 101,143 bln CN. It can be explained by the start of the company to operate in different countries such as US or Russia. Internationalization open new doors for Alibaba and brought a lot of revenue. Moreover number of total equity increased almost 10 times since 2014 which is explained by the fact that Alibaba built new stores to keep goods not only in China but also for example in Russia. Number of employees also
increased significantly. Every year Alibaba company hires a lot of new talented young people. Two years ago Alibaba started a program called “Alibaba Future leaders” which is 1 year program in China for future leaders of the company.

In 2015 Alibaba has become the most expensive company in the “Retail” category, ahead of such global giants like Amazon and Walmart, shows BrandZ ranking, compiled by Millward Brown. Due to a record IPO at $25 billion in New York in September, company managed to take 13th place in the top 100 companies (Stewan 2016). Moreover IPO at $25 billion has helped to increase the value of brands in the retail sector by 24%, making it, along with the fastest growing sector of technology. In 2016 Alibaba became №1 retail Company in the world, becoming the largest e-commerce retailer in the world (Felsted, 2015).

3.4 Alibaba’s international expansion: location-specific business model adaptation

As it was already mentioned before Alibaba was found in 1999. First few years’ company operated only in Chinese market but from its beginning Alibaba had international plans. Unlike most other Internet companies, language was no barrier for Alibaba. Its membership base has always been communicating in English even before Alibaba arrived on the scene (Walraven, 2011).

In 2001 Alibaba opened offices in U.S and Hong Kong – they were responsible mainly for the market analysis and marketing of the company which helped to attract new customers. Alibaba started its expansion from the nearest countries – Asian countries which were more similar in terms of culture and closer in terms of distance.

Thus in 2008 Alibaba opened its offices in Taiwan, Thailand and increased operations in India. In India Alibaba started a partnership with Infomedia India Limited – leading media company. Indian market was very attractive for Alibaba since it was the second fastest developing economy in the world and the number of small and medium size businesses was enormous. David Wei, CEO of Alibaba, is optimistic about the future. His reaction on the partnership: “India is a very important and strategic market for Alibaba.com and is a top priority for our global expansion plans.” (Walraven, 2011). After collaboration with Infomedia India Limited Alibaba noticed interest from similar companies but in other Asian countries such as Indonesia and Vietnam. Thus now company is working on the increase of its operations in the countries mentioned.
In addition to the expansion to the countries mentioned before in 2008 Alibaba announced a joint venture company Alibaba.com/Japan. In Japan Alibaba collaborated with Softbank – Japanese Telecommunication Corporation.

Relating Alibaba expansion to U.S and European market it should be mentioned that in 2009 Alibaba opened its offices in a few European countries – Switzerland, England (London), Spain and France (in 2010). By these offices Alibaba started to promote its business to potential buyers and sellers. Relating expansion to U.S in 2014 the IPO of Chinese Alibaba officially became the largest in history, after the banks-organizers executed the option "green shoe" - the right of the remaining shares in conditions of high demand. The company and shareholders sold 320 million shares (about 13% of the authorized capital) at $ 68 per share. The entire business was valued at $ 168 billion. The debut of Alibaba on the New York Stock Exchange was, as expected, superintendent: on the first day of the stock, prices rose 38% (to $ 93.9), while market capitalization reached $ 231 billion. (Tkachev, 2014)

In 2012 Alibaba came to the Russian market with AliExpress business. Then the company began to buy advertising on the Internet and noticed the demand by Russians, after which it was decided to develop in the Russian segment. AliExpress actively works with social networks. For example, in VK the store has a community called "Look what I found on AliExpress". The group publishes links to interesting products that are on the Chinese site. In the same 2012, Alibaba.com entered into a partnership agreement with Qiwi payment system, a year later, in 2013, it connected to the WebMoney - transfer system, and in 2014 connected Yandex Money with the same name wallets and terminals of Sberbank.

Summarizing information above it can be concluded that from the origin Alibaba was oriented on the international market. Company started its expansion by operations in the nearest countries due to the cultural similarities and location. After a few years from the establishment Alibaba started to expand to European countries and U.S where it became popular and took leading positions in E-commerce market. In 2012 company came to Russian market where it became very popular and faced high demand from the potential buyers.

Due to cultural, economic and business differences Alibaba adopt its business model and strategy in each country. In the following part Alibaba business model in China and Russia will be described and compared in order to analyze the process of adaptation.
3.4.1 Alibaba business model in China

China is the country where the company was established. Since Alibaba Group started as a local company and still China brings the biggest revenue for the company is it very important to analyze market conditions, regulations and opportunities in the market in order to understand how AliExpress business model looks like and how business processes are organized in China.

Market opportunities. Alibaba started to work in China in 1999, when the e-commerce market wasn’t diverse. Company didn’t have any powerful and strong local competitors except eBay – multinational e-commerce corporation, facilitating online consumer-to-consumer and business-to-consumer sales, headquarter in USA. Chinese market was very attractive for the internet company due to the following reasons:

1. When Alibaba started to operate it was relatively new type of service (at least in China). The infrastructure of commerce in China was immature and not developed in comparison to western countries (from where eBay came). E-commerce wasn’t developed that time so that gave an opportunity for Alibaba to become the first one in that sphere and shows its potential;

2. Not only e-commerce sphere wasn’t developed but also no products like these existed before. Alibaba was innovative model and offered innovative and unique service – unlike its main competitor at the time it started to operate Alibaba ensured that investors could easily find information about products they may be looking. Moreover a lot of information about suppliers was provided. By being open Alibaba created a positive and wide network between all sides of customers;

3. As it was already mentioned before e-commerce market wasn’t developed in China. This happened because of the very low internet penetration: while in USA in 1999 about 36% of population had access to the Internet in China that percent was only 0,7% - that gave a lot of potential to the development of Internet industry (Statista, Statistical Report on Internet Development in China 2016). Now share of people in China who has access to the Internet is 53% - which is 50 times more than it was when Alibaba just started its business in China. Moreover there is a tendency for usage of smartphones in China which allows Alibaba new opportunities which will be described further.
Figure 14. Internet users in China (Statista, 2016)

Registration process and local specifics.

Sellers.

Registration process in China for companies selling online is similar to sellers in Russia since the main requirement is that the seller is above 18 years old and sells products from China. When sellers register, they should attach the following documents: passport copy, picture of themselves with a passport in hands, working Chinese phone number, Chinese address, and after the application is sent, administration reviews it in 3-5 days and send either approval or rejection. The system is provided only in Chinese language, so there are no language barriers for Chinese companies. After registration is approved, a seller registers its profile where he fills in the data about himself and different goods, moreover, AliExpress provides sellers with different video courses about how to create a profile and manage it.

Sellers can sell everything but for original brands, they should pay an additional fee. The list of brands is presented on one of AliExpress pages. Moreover, while describing the product, a seller should even refer to the brand name if he didn’t pay a fee (for example, “this watch looks very similar to Rolex”). The most popular categories for which fee is needed are: phone - $6000 per year, tablet - $500 per year, memory stick - $100 per year. Recently, this list was widened and the fee increased significantly (new items include: go pro - $1563, part for laptop - $312). Relating to the description of the product, there is a special framework within which the description should be done, but actually, the administration system doesn’t control the right description (Zhao, 2017).

Relating to the rating and fine system, it should be mentioned that every seller can get 48 fine points for selling fake products. This point can be given both by administration who checked the account or after buyer complain. If a seller gets 48 point, his shop is banned, and IP address can
operate on the platform. Moreover a seller gets a lot of fine point if administration found that he asked someone to give him a lot of fake positive reviews. Sometimes sellers get an email from unknown address which offers them a service to get fake reviews and high rating in change of $100-$200 (Zhao, 2017).

In order to protect themselves from unfair buyers there are special web site for seller where they share IP of buyers who for example didn’t pay for the products. Moreover they can add this IP address in the black list.

**Buyers**

Though in China AliExpress works as B2B platform the registration process for buyers is similar to Russian customers. In order to register a buyer should fill in information including address, phone numbers, name and email. Moreover if a company want to buy original brands from the web site (as it was mentioned there is a list of such brands) he should also pay a fee which is less similar than the one sellers is paying. All features related to the dissatisfaction of the product quality are similar to Russian consumers and will be described within Russian buyer’s registration and features.

**Competitors.** Criteria’s for the comparison of a certain competitors were the following: presence in Chinese market, main operations on digital platform, similar business model – either B2Cor B2B high market share in the country with a big number of customers. It is important to mention that there is no competitors in B2B segment in China since AliExpress together with Alibaba occupies almost 100% market share. Thus main competitors described represent B2C business which successfully operates in China. Example of eBay is described in order to show how Alibaba managed to force strong brand to leave Chinese market and JD.com example is described in order to show how B2C market competitors operate in China. Moreover JD.com management team is planning to implement some feature which could turn the platform in B2B market.

In order to analyze Alibaba competitors in China nowadays it is important to look at the example of how Alibaba defeated eBay in China since as it was already mentioned before when Alibaba started to operate in China eBay was the strongest competitor which came to the market in 2004. According to the analysis of eBay representatives interviews eBay main mistake was an aggressive campaigns. Moreover due to the result of research in China among Chinese students it was found out that a lot of Chinese people think that eBay failed just because it wasn’t originally
Chinese company. This idea is quite interesting and can be true because there are a lot of examples when European companies came to Chinese market but failed and after that Chinese company started similar business and succeed. Chinese customers are very sensitive about their nationality and culture so they trust more local company than European brand even though if it is known more in the world. As a defense strategy against eBay Jack Ma decided to launch C2C auction site (similar to eBay model). The main advantage of new C2C platform called Taobao was the free of charge feature for all individuals.

**EBay.** As it was already mentioned eBay started its aggressive campaign. Company signed contacts with the most popular portals such as Sina, Sohu and others. These contracts gave company exclusive rights and blocked advertisement of Taobao. Jack Ma knew Chinese market better and he used different promotion channels such as TV which helped him to attract more customers. The main advantages of Taobao in comparison to eBay were the following:

1. Taobao was free to use;
2. It was more client focused and friendly: majority of items were for sale not auction;
3. Taobao offered longer listing periods;
4. Jack Ma used conditions of Chinese market where people were more pones users than computer users and implemented special features.

As a result Alibaba Company won and occupied the whole Chinese market. During one of the speeches Jack Ma said “eBay may be a shark in the ocean, but I am a crocodile in the Yangtze River. If we fight in the ocean, we lose—but if we fight in the river, we win” (Wang 2017). It was the first win of Alibaba Company which made the company stronger and helped to occupy almost the whole Chinese market. The tendency of Taobao and eBay market share is graphically presented in the graph below.

![Market share: Taobao and eBay](image)

**Figure 15.** Market share: Taobao and eBay (Lee, 2016)
**JD.com** Relating to the modern competitors of Alibaba in China it should be mentioned that even though the Chinese e-commerce market is quite diverse and big now, there are not a lot of primary competitors which could be a threat for Alibaba dominant position in the market. JD.com can be identified as the main primary competitor for Alibaba in China. JD.com is a direct-sales retailer in the mold of Amazon which was established in 2004. Company has its own warehouse and sells goods directly to consumer. One of the strongest sides of JD.com is that the company controls over its supply chain: its warehouse, markets and ships merchandise directly to the customer through its own shipping network system.

Even though companies have fundamentally different models: they still compete on Chinese market. Rivalry between companies started in 2015 on the Singles’ Day (so called Black Friday in USA) – the biggest shopping day in China. Due to the trend of shifting towards B2C sales importance of products quality, authenticity are becoming more and more important. JD.com benefits from this trend since it sells in-house and allows controlling quality and excluding counterfeits.

Even though Alibaba still remains the dominant e-commerce platform in China JD.com increases its market share and revenue steadily. In 2014 Jd.com market share of B2C sales was 18%, while Tmall had 61%. In 2016 JD.com had 25% against 57% of Alibaba (Alibaba official web site). Nowadays rivalry between two companies is quite intensive, though Alibaba is still winning and occupies the majority of the market. In order to win this competition companies make exclusive agreements with different brands, one of the brightest examples is UNIQLO which started to work with JD.com and brought a lot of revenue to the company but after meeting with the representative of Alibaba gave Jack Ma exclusive rights to sell UNIQLO by Alibaba websites.

Since JD.com sells mainly electronics Alibaba invested a lot of money to buy exclusive rights to sell Xiao Mi – one of the most popular smartphones in China. As it was already mentioned the competition is taught and it is quite difficult to predict the results, but as Jack Ma mentioned during one of his speeches: “We are not afraid of competitors, they make us stronger and bring new ideas to our business. If they create something new we would develop this idea and make something better than they did. We have so many ideas to offer for your customers.” (Bortern, 2017)

**Government regulations.** When Alibaba started to operate in China due to the underdevelopment of Internet industry there were almost no government regulations in that sphere so company was quite free in terms of business and its strategy. Since time is changing and more high-tech
companies appear in Chinese market Chinese government started to implement new rules and regulations in that area. The following regulations are the ones which affects Alibaba business mostly:

1. Implementation of new fine rates for counterfeit. It could influence Alibaba Company in terms of number of sellers since even though company try to regulate the authentity of products fake products still exist. “We will welcome any regulations or policies that encourage the healthy and sustainable development of ecommerce in China,” an Alibaba spokesperson told Tech in Asia this afternoon (Liu, 2015).

2. There are several regulation relating to the control of payment method, fairness of the delivery, ads contest. These regulations control the safety of payment and are implemented in order to protect buyers since e-commerce platform is just developing and IT educated people can easily steal data from the customers. Alibaba could only benefit from new regulations: “At Alibaba, I used to be against regulation,” Ma said. “But today we have fake products and frauds, and people are saying you don’t have enough regulations. So we still need to regulate.” (Zhai, 2015).

3. Protection policies for the local business positively influence Alibaba performance in the country. These policies include lower tax than for the same type of foreign business, more pleasant condition for loan taking from bank and soft regulation for equity management.

4. In order to operate in e-commerce market a company should meet certain requirements proposed by the government. These requirements are listed on the official web site of the Ministry of Communications. Main requirement are that the company should have certain certificates which proves the safety of payment, data security and taxation information. Alibaba has all certificates so this regulation doesn’t influence company negatively.

It can be concluded that even though for many foreign companies such as Facebook and Google Chinese market is closed and seemed to be taught regulated for Chinese companies conditions are pleasant and help them to improve their business rather than become bankrupts.

Business model. As it was already mentioned in the beginning of the 3rd Chapter Alibaba Group offers different services including search engine, payment platforms, apps, cloud computing service and different e-commerce platforms. Since the comparison is based on the AliExpress platform, main elements of AliExpress business model are analyzed in the following part.

Key partners. In this part major partner of AliExpress in China will be mentioned:
**Alipay.** Alipay is a third-party online payment platform which was launched by Alibaba in 2004. It has the biggest market share (50% of all payments) in China with almost 400 million users. Alipay allows users of Alibaba to transfer money to other Alipay users, share bills by using QR code, send “red envelopes” (small monetary gifts popular in China) by WeChat (the most popular social network in China). Alipay is much more than just Chinese analogue of PayPal – it is the whole financial ecosystem in China. As it is known the payment system and security of information is one of the most crucial requirement when customers think about on which website to buy products. By being the center of Alibaba finance ecosystem Alipay brings a lot of value to Alibaba Company so it can be concluded that Alipay is the major partner for AliExpress in China.

**Weibo Corporation.** SinaWeibo or Weibo Corporation is so called Chinese Twitter which is very popular among Chinese customers. In 2014 Alibaba signed a contract with Weibo in order to integrate its payment service with AliExpress: by implementing this service users of Alibaba can connect their Alipay account with Weibo account and buy different goods without logging in. This cooperation created so called social e-commerce when users of both platforms could easily find good which were discovered and recommended by their friends and share the view of the good on Weibo.

**Cainao Network.** As AliExpress is online company it is very important to have trusted and developed logistic system thus in 2013 Alibaba launched logistic company called Cainiao. At the beginning company focused on delivering products within China but since Alibaba business started to expand and users started to buy more products from overseas Cainiao became international company. Now company covers more than 230 countries and regions;

**China mobile.** Recently Alibaba announced partnership with Chinese biggest phone carrier China Mobile. It is interesting partnership since as it was already mentioned before smartphones are becoming more popular in China than laptops and mobile marketing, infrastructure and technologies are becoming more attractive for big companies. It should also be mentioned that in China 80% of purchases online are made by the smartphones. This partnership is very important for Alibaba and results could be seen not far in the future.

Key partners of AliExpress is a financial platform - Alipay. Moreover since AliExpress is online platform it cooperates with different logistic companies, the main partner in logistic sphere is
Cainao Network. In addition to that AliExpress also cooperates with different advertisement agencies and online advertisement platforms.

**Key activities.** Key activities of AliExpress in China are followings:

- **Help local companies to succeed.** The main activity of AliExpress in China is to help local companies and entrepreneurs to succeed in Chinese market. This goal is achieved by the provision of the platform where any business can register and the advertisement on the web site. Alibaba’s main revenue comes from the advertisement as it will be described in more details later. Even though Alibaba has different services in China e-commerce platforms still remain as the main business.

- **International business enters Chinese market.** Second activity of the company is the help to international brand to enter the Chinese market. This activity also includes opportunity for any foreign company to register on the platform and advertise its product. In the following part different steps of international company registration will be described.

- **Marketing.** Since one more segment of AliExpress customers are advertisers – companies which don’t sell their products on AliExpress and have different type of business one more activity of AliExpress is the advertisement of such companies on the web-site platform.

Since in China AliExpress have a lot of different customers the number of key activities also varies. Main activities of the company are: help local companies to succeed in Chinese market, help international companies to enter Chinese market and to promote different companies operating in China by the ads on the platform.

**Key resources.** All key resources of AliExpress can be divided by three main divisions:

- **Intangible.** Key resource of AliExpress is its intangible asset – its digital platform with all customers data.

- **Tangible.** Alibaba has 3 big offices in China including the main in Hangzhou, Hong Kong and Taipei, in all offices a department for AliExpress company is presented. In addition to those tangible assets Alibaba has several huge warehouses in different parts of China: one in Hanzhou, one in Xinan and one more is planning to be built in Shanghai. Moreover Alibaba has several data centers, one of which is built especially for AliExpress; this center is located in the city next to the Hangzhou area.
Human resources. Number of employees of Alibaba in China increased significantly during last few years – from 22,000 in 2012 to 36,450 in 2015. The increase is graphically presented in the graph below. Figure below represents the increase of number of employees graphically.

![Number of employees](image)

**Figure 16.** Alibaba employee’s statistic (Statista, 2017)

Relating to the statistic of AliExpress platform the number of employees is approximately about 25% of all employees – 10,000 people. Of them only about 30% work at the office and the rest works either at the warehouse or at the data center.

Main resource of AliExpress is it is diverse business models which include different intangible assets such as Multi-Sided Platform. Moreover, AliExpress has several tangible resources in China which include 3 offices and a few warehouses and data center. In addition to that human resources are very important resource for the company even though it offers online service.

Value proposition. This component will be described in more details in the following part within value proposition canvas for the main customer segments.

Customer relationships. AliExpress has a diversified system of relationships with its customers. There are three main customer segments: Chinese companies and entrepreneurs, international companies and entrepreneurs and advertisers. In this part main aspects of customer relationships will be described and analyzed.

24/7 call service. Alibaba has developed customer relationship system which includes different services: 24/7 hot line where people who are able to speak Chinese and English can call any time any day. Moreover they can email to the service with 1 hour maximum response time. People who work at this service have access to all data and all information related to the company and therefore knows the background and statistic so that can help in a more efficient way.
**E-mail alerts.** All companies registered on the web site gets an email alerts related to all operations within their business. Moreover they are provided with the corporate Alibaba email where all information received is allocated in different folders therefore making the managing process much easier. Also companies can subscribe for the receiving of different news related to different areas such as trends in e-commerce industry, government regulations, foreign news in e-commerce industry and etc. All these data is provided by Alibaba research agency.

**Events.** Alibaba promotes its platform AliExpress by participation at different events for suppliers. Thus there are a lot of different exhibitions in China related to the digital promotion of the products and the growth of e-commerce sphere. AliExpress has its representatives at such exhibitions in order to seek for new potential clients.

**Easy customer management system.** Easy customer management system provided by Alibaba is essential part of its customer relationship with suppliers. Alibaba provides both sellers and buyers with the integrated management system which help to control and monitor all data and operations made on the web-site.

**Apps.** In addition to the AliExpress app where a buyer and a seller can register and monitor their operations AliExpress also offers an app for sellers – where each company has a certain representative of AliExpress who helps them any time the help is needed. By this app any seller can monitor requests sent to the AliExpress, check the statues of request and also communicate with the company.

**Channels.** Promotion channels of AliExpress are very different. The main promotion channels can be divided as followings:

**Online advertisement.** Once a user have been to the one of the Alibaba web sites, ads of different goods sold there will be shown as an ads on different websites including movie, travelling, social networks and others. This type of advertisement is the most effective one since Chinese people spend a lot of time online.

**Mobile apps.** Alibaba recently started to promote its services by mobile apps. Company works on the implementation of new apps for sellers, buyers and advertiser. Existed apps help companies to communicate with the company. New apps could help to manage the data of customers, communicate with logistic services and navigate the purchase process. Mobile apps are developing
together with Chinese and USA IT companies. Moreover AliExpress is very active on its WeChat page where sometimes it offers coupons for companies buying staff on AliExpress.

**Events.** As it was already mentioned company participates in different events where representatives of AliExpress are searching for potential buyers and sellers of the platform. These events include different exhibitions related to the Ecommerce sphere such as “E-commerce Today” which is hold every year and is becoming more and more attractive for foreign companies.

**Customer segment.** In China there are three main segments of AliExpress platform.

**Sellers**

**International companies and entrepreneurs.** This segment includes foreign representatives who use AliExpress platform in order to enter Chinese market and sell their goods to Chinese consumers. Without any offline shop in China they can test the potential demand for the product by selling small quantities online. AliExpress gives a great opportunity for businesses which just started to operate or already has established brand in the country of origin to enter a new market without high expenses and to measure a potential demand for the products they produce. The number of these companies is very small now and even on the official web site it is said that now only suppliers from Mainland China can sell products. But Some USA companies and a few European already made an agreement with the company to sell there and it is the most growing segment as supposed to be in the future therefore is should be analyzed.

**Chinese companies and entrepreneurs.** This segment includes companies who make their goods in China and don’t sell them directly to the customers. Instead of that they use so called resellers who are also Chinese companies and entrepreneurs who purchase them by AliExpress and then resell directly to customers with the profit margin.

**Buyers**

**Chinese companies and entrepreneurs.** This segment includes Chinese representative who purchase goods on AliExpress from foreign companies. They buy goods in small quantities and then resell them by their own shop or platform. Mainly these businesses have their own offline platform with a variety of products.

**International companies and entrepreneurs.** This segment includes foreign who buy products on AliExpress and then resell them in China. This segment is quite small therefore the
value preposition is not analyzed since it accounts for the smallest percentage. Now Alibaba focuses mainly on the development of international companies’ sellers in China rather than international buyers.

**Advertisers.** This segment includes both companies who sell their products by AliExpress and also those businesses that are not connected to AliExpress for example travel agencies, offline shops but who post their advertisement on the platform. Knowing the customer base of AliExpress and advertisement there is very effective in terms of customer’s attractiveness.

**Cost structure.** Main costs of AliExpress in China include: marketing, platform maintenance and administrative and general expenses. The figure below presents the extract from Alibaba Income Statement.

![Figure 17. AliExpress Income Statement (Alibaba, 2016)](image)

As it is seen from the figure above major expenses are following:

1) Cost of revenue which was 5,328 mln USD while the total cost was 9,370 mln USD (47% of total expenses)
2) Product development expense which was 2,138 mln USD (19% of total costs)
3) Sales and Marketing expense which was 1,753 mln USD (16% of total costs)
4) General and administrative expenses which were 1,428 (13% of total costs)

It can be concluded that main costs of AliExpress are fixed cost and the semi variable cost. Because of the e-business model, the firm has seldom variable cost such as the material cost. These costs include the cost of revenue and product development expenses; it takes about 60% of the total costs. The semi variable cost is the cost for selling such as advertisement and the cost of sells man; it takes about 40% of the total cost.
**Revenue stream.** There are two main revenue streams of AliExpress in China:

1) Pay-for-performance/Ads. The revenue model is based on the advertisement. Biggest revenue Alibaba gets by posting ads of different companies of its websites. Sellers bid for display positions on the relevant marketplaces or through their third-party marketing affiliates at fixed prices or prices established by their real-time bidding system on a cost-per-thousand impression (CPM) basis. (Alibaba annual report, 2016)

2) Commission and transaction. Sellers should pay a commission based on a percentage of GMV for transactions settled through Alipay. Moreover Alibaba gets revenue from the transactions over Aliexpress.

Figure below represents revenue share graphically.

![Revenue streams](image)

**Graph 1.** Alibaba revenue streams (Annual financial report, 2016)

**Value proposition.** Since AliExpress is a multi-sided platform it targets different customers. In this part value proposition for three types of customers will be described.

**Buyers.** Buyers include mainly Chinese companies which purchase foreign goods and resell them in China. Their main job is to find goods which can be resold for Chinese consumers. The main gain is instant access and a variety of choices for a good price. Main pain of buyers is a lack of access to any platform similar to AliExpress – since it together with Alibaba occupy 100% of Chinese B2B market. The majority of such companies have their own offline shop through which they reach their customers.
**Figure 18.** VP for buyers in China

**Sellers.** When we talk about sellers we mean small or medium Chinese customers which want to sell their products in Chinese market. The main job for them is to sell products and Alibaba provides them with this opportunity.

Main gains of sellers are to get 100% payment and quick response from customers. There are some problems with 100% payment. According to AliExpress policy a buyer will pay only after the confirmation of the receiving of product, this is made in order to protect buyers, but recently they started to use different methods to fool sellers and receive products without confirmation and payment. Since this problem appeared recently and mainly in Russia, Alibaba still hasn’t made and significant regulation changes. Relating to the main pains, they are: cant process payment, nonexistent logistic infrastructure and poor access to customers. Alibaba provides seller with the easy access to customers and gives them an opportunity to give coupons and special discounts in order to attract more customers.

**Figure 19.** VP for sellers in China
Moreover sellers include not only Chinese companies but also foreign one even though the number of them is very small. Now there are only a few foreign companies which sell by AliExpress in China as a pilot project. As it was mentioned before they are the most growing segment and AliExpress management team is planning to focus on the attraction of this segment. The main job of this segment now is to sell their products—therefore measure the potential demand and enter Chinese market. The main gain is the repeated customers and recognized brand. The main pain of this segment is the lack of any similar platform by which they can enter Chinese market and which is as well-known in China as AliExpress.

**Entrepreneurs.** Jobs of entrepreneurs are quite similar to the sellers, but they are more specified. Companies want to sell their products in order to make a living for the company. Due to the low price of member fee a lot of small companies use AliExpress as a selling channel. Their main gains are that customers will recognize their brand; they will have easy administration and repeat customers. As it was mentioned before Alibaba has Aliamama service where seller can post advertisement of their products without any payment. Main paint of entrepreneurs is that they often don’t have any business experience, customer knowledge and don’t make enough money. Since managing of the profile at AliExpress is quite easy and the number of customers AliExpress targets is very diverse entrepreneurs can avoid these problems.

Figure 20. Value proposition for entrepreneurs in China

**Advertisers.** For advertiser the main job is to promote their product and make customers aware of it and persuade them to go to their web site. The main pain is that mostly the majority of these companies promote themselves mainly offline and therefore they don’t have access to the big set of
customers. AliExpress provides them with a huge platform of customers. Moreover these companies always have a lack of digital channels for online promotion. Main gains are recognized brand, new customers and opportunity to promote the product for comparatively low price.

**Figure 21.** Value proposition for advertisers in China

**Summary.**

Summing up AliExpress business model and Value preposition in China the following Business Model is created.

<table>
<thead>
<tr>
<th>Key partners</th>
<th>Key activities</th>
<th>Value proposition</th>
<th>Customer relationship</th>
<th>Customer segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Alipay (payment) • Weibo (advertising) • Cainao network (logistic) • China mobile</td>
<td>• Help local companies to succeed • International business enters Chinese market • Marketing &amp; Advertising</td>
<td>Sellers • Get access to wide customer database • Enter new market Buyers • Low price and variety of choices Advertisers • Promotion of the product for the huge customer database</td>
<td>Buyers &amp; Sellers &amp; Advertisers • 24/7 call center • E-mail alerts • Apps Sellers • Events • Customer management system</td>
<td>Sellers • International companies and entrepreneurs • Chinese companies Buyers • Chinese companies and entrepreneurs Advertisers</td>
</tr>
</tbody>
</table>
In China Alibaba has the strongest position in e-commerce industry since it home town of the company. Management team knows specifics of the customers and therefore successfully implement new services and develop existed one. AliExpress is very popular B2B platform in China. There are almost no direct competitors for the platform, though there are some strong players in B2C market such as JD.com. Moreover business regulations in e-commerce sphere in China are not very developed yet and government gives some kind of privilege for local companies. Main activities of AliExpress include help to local companies to sell their products to other local companies. Moreover now management team of AliExpress is planning to focus on the development of International sellers segment since now only a few international companies operate in Chinese market.

Key partners of the platform are subsidiaries which Alibaba creates. Logistic is provided by the Alibaba subsidiary – Cainao Network, financial institutions are also Alibaba services: Alipay, Weibo. In terms of platform company doesn’t work with advertising agencies but promote itself mainly by web site, online advertisement, mobile apps and events for sellers. In China platform adopted all elements of its business model to the local consumers and due to the knowledge of their preferences company managed to gain trust and popularity among them. Promotion channels, customer relationships are all adapted to Chinese consumers. Customer relationships are developed, company provides both buyers and sellers with apps where they can manage different operations. Moreover platform offers quite easy registration system, support system bonuses programs.

Alibaba’s main value preposition in China is that it gives an opportunity for entrepreneurs in China (the number of whom is really big) to sell their products on the platform. Moreover it gives opportunity for international companies to enter Chinese market without high costs since they don’t have to establish their shop in China. In addition to that in China AliExpress promotes different good and services by selling ads on the web site. These ads can be bought by different companies even if they don’t operate on the platform.

3.4.2 Alibaba business model adaptation in Russia

Market opportunities. Russia occupies a weighty place and is always included in the top three foreign markets by AliExpress. Leaders are the USA, Spain and Russia. But often Russia comes out on top and is the key market for AliExpress. In comparison to Chinese market where company works mainly as a B2B platform in Russia it works as B2C platform mainly. The reason why
Alibaba entered Russian market with B2C platform is that because it is easier at the first time to enter with B2C and therefore to attract more customers. Registration for buyers in B2C platform is easier than the registration for B2B. B2C platform allows understanding how business works in the country and estimating the potential success or failure of the platform.

Alibaba entered Russian market in 2012 with AliExpress platform. Originally company started to buy places for advertisement and noticed interest from Russian customers and decided to expand to Russian market. When AliExpress started to operate in Russian market it concluded a partnership agreement with the Qiwi payment system, a year later, in 2013, it connected to the WebMoney Transfer system, and in 2014 connected through Yandex Money the same-name wallets and terminals of Sberbank (Terkunov, 2017). “E-commerce truly meets Russian consumer demand in a way that traditional retail cannot - it gives shoppers the option to choose for themselves when and where they want to purchase their personal goods,” said Mark Zavadskiy, general manager of Alibaba Russia (Spiridonov, 2016). “Chinese sellers have grown in popularity with Russian consumers because they have the products consumers want at prices they want to pay. It makes sense that we follow this demand.” (Spiridonov, 2016). Since there were no obviously dominant company in that sphere in Russia Alibaba got a great opportunity to take its niche in the market. According to the questionnaire hold 87% of all respondents at least once made a purchase by AliExpress. According to the products they bought at AliExpress the rating is the following (results graphically presented din Appendix):

- Women clothes – 72%
- Shoe and bags – 12%
- Mobile phones and accessorizes – 9%
- Jewelry and watches – 4%
- Accessorizes for the car – 3%

**Registration process.** In this part registration process for both sellers and buyers will be described.

**Sellers**

The registration process for Russian and international sellers is similar to Chinese. The main requirement is that they should be above 18 years old and sell their products from China. So Russian selling by AliExpress should be either based in China or have someone who they will manage who lives in China and register account for his name. There is a special group in Vkontakte where there
are about 2000 people which is called “Russian sellers on AliExpress”. There people sell their IP address and Chinese people help to register a profile for $100-$200. Help is needed because the whole registration process is in Chinese (only if you register on AliExpress Mall you can get Russian support) therefore a seller should know Chinese language because if he uses English auto translation it is not always correct. Moreover the seller should create its account on AliPay and for Russian it is quite difficult since they should have bank account at one of Chinese banks. The protection system and fine system for Russian sellers is the same as for Chinese. If they operate on AliExpress Mall they should also provide more certificates. During the next year AliExpress platform is planning to implement a beta version so that Russian entrepreneurs operating in Russia could register their account.

**Buyers**

Since AliExpress operates mainly as B2C platform the registration for buyers is quite easy. A user should only fill in information including name, address, phone number and email. The big disadvantage of the platform is that the translation into Russian is made automatically and no one checks it so sometimes while reading description of the product it is impossible to understand what is it. It is the direction AliExpress management team is going to work on and improve. Protection system for customers is developed, they can escalate the dispute with the sellers if the product they offered doesn’t match the description or quality is very bad or if it is fake product. In the past they could do it only after 7 days of purchase but since last year this period was extended by 2 weeks. Moreover it is recommended by AliExpress team to open the purchase with the video record in case there are any breaks or damages a customer could prove that it is not his fault. Moreover it is recommended for customers to watch YouTube reviews of the product (a lot of Chinese sellers use VPN in order to download review, because in China YouTube if forbidden). Also sometimes sellers can ask buyers to give them fake rates and if administration noticed that the same IP address has several accounts which give high ratings for the same sellers this IP address can be frozen or even banned from the operation of the web site.

**Competitors.** There is no dominant player in e-commerce market in Russian though there are a few quite big players. In Russian market there is not many players which can offer as many different products as AliExpress but there are quite a lot who specialize on a certain type of product, for example Wilberries, LaModa (clothes), Mvideo and Ulmart which sells electronic devices. Main competitors of Alibaba in Russian market which will be analyzed a chosen according to the report
created by the Association of E-commerce companies in 2016 (Uzapov, 2016). In this report Association illustrates a list of the most popular e-commerce platforms in Russia according to the number of customers and revenue. According to this report the most popular e-commerce platform in Russia is AliExpress, the next one is OZON.ru, and the third one is eBay.com. Moreover such competitor as JD.com is not in the rating yet but since it is the main competitor of Alibaba in China it is also included. According to the questionnaire where respondents were asked about the most popular e-commerce they make purchases the rating was following:

- AliExpress – 72%
- OZON – 13%
- Ebay – 11%
- Ulmart – 4%

This statistic justifies again the choice of competitors analyzed in Russian market. Moreover it can be seen that the difference between top two markets is significant – almost 60%. The main reasons why people didn’t make purchase at AliExpress are the following according to the questionnaire:

- A lot of fake products - 40%
- Long delivery - 35%
- Bad quality - 17%
- Never heard about it - 2%
- Other - 4%

The problem of fake products and long delivery was already partly discussed and will be discussed further. AliExpress management team tries to improve the structure and regulation of the platform in order to improve customer’s experience.

**eBay.com** can be identified as the main competitor of Alibaba though the number of visitors per month is two times less than that of Alibaba (only 8.2 mln people). Company entered Russian market in 2010. As Alibaba defeated eBay in Chinese market it is interesting to see how companies would fight for customers in Russian market. At the end of 2015 the number of transactions per day was approximately 90 thousand transactions. Relating to eBay customers it can be mentioned that 50% of buyers are in Moscow and St. Peters burg, the remaining 50% are people from the regions
And the regions grow in all indicators faster than the capitals. eBay develops its logistic system, signs contracts with different logistic companies to improve the infrastructure. eBay also offers opportunity to collect different items purchased on the web site and receive them at the same time.

AliExpress doesn’t have that function and it is the big disadvantage of the company since sometimes the price of delivery is the same or even higher than the price of the item and moreover if customers ordered items from different sellers they should go to the post office every time the purchase came. Main payment system of eBay is PayPal. Originally it didn’t get license in Russia but now it can legally operate and it is becoming very popular payment system. eBay in Russia offers products for different prices and from different countries. One of the main advantages of eBay is that they propose themselves as a company which sells authentic products from all over the world, while the majority of products on AliExpress are from Chinese sellers.

**OZON.** OZON.ru is a large Russian online store which provides its customers with 4 million positions in 18 categories, including: electronics, household appliances, goods For home and garden, products for moms and children, repair, sports and leisure, beauty and health, clothing and footwear, car goods, pet goods, food, books, multimedia, DVD, software, games, music, antiques and other. Ozon began as an online store selling books. Now this segment of products accounts for 25% of all sales. Company is quite popular in Russian market for the origin of goods which are sold there. The number of users in comparison to AliExpress is 9,2mln against 22 mln of AliExpress. The percentage of users who made at least one purchase is two times less than the one of AliExpress and is only 21%. As a result of 2016, the turnover of Ozon.ru online store increased by 20% compared to 2015 and amounted to 18 billion rubles. Taking into account the indicators of the Ozon. Travel project, the aggregate turnover reached 40.5 billion rubles, the company said. Net sales of Ozon.ru by the end of 2016 also increased by 20%, to 14.2 billion rubles. In this case, the retailer in 2016 failed to achieve a net profit - as in previous years.

**Ulmart.** It is a Russian online store selling non-food items and digital content. The leader of Russian Internet trade in 2013 in terms of revenue (about $ 1 billion). One of the largest Internet companies in Russia. In 2016 Ulmart president announced that company will test the possibility of working in the marketplace format, that is, it will turn into an aggregator site where goods are sold from other stores. The first on the will be the sister companies of the retailer: the Rive Gauche perfumery and cosmetics chain, Obuv.com footwear retailer, the Rainbow Smile network, and the
RozTech linen group (the Wild Orchid network, "Bustier"). Placement of goods on the Ulmart site for partners will be free, the online seller will charge a commission for processing, courier delivery or use of the distribution center. Moreover Ulmart became the main partner of JD.com which recently entered Russian market. As a result Russian company is planning to increase its customer database. It is planned that Russian buyers will be able to receive goods from the JD.com assortment at numerous outlets of Ulmart Outpost within 1-4 weeks after the order.

**JD.com.** Even though JD.com entered Russian market recently it is important to see how the company operates in Russia since in China it is the main competitor of Alibaba. It came to Russian market in 2015 and immediately started a conflict with Alibaba saying that they were illegally selling smartphone Nubia Z9 Mini. Originally Nubia company gave exclusive rights for JD.com but Alibaba violated that contract. The same situation happened between JD.com and Lenovo, when Lenovo representatives claimed that they didn’t give JD.com rights to sell their products. Position of JD.com in Russia is not good and stable after the situation which happened at the end of 2015. In addition to the failure of the action with $10 gift coupons caused by the influx of those wishing to take part in it, as well as attempts to "deceive the system," one more problem emerged. In JD.com, there was a breach that allows everyone to see a list of other people's orders when customers click on a simple link and get information about the client, including the phone number and address. These situations influenced company’s brand negatively. Main partners of JD in Russia are the Russian Internet retailer "Yulmart", Rambler, "In contact", "Yandex.Direct" and "Yandex.Money", as well as Qiwi. Company works not only in e-commerce sphere but also going to develop online-cinema in Russia (Terkunov, 2017). The idea came after JD began selling smart TVs of Chinese brands in Russia, where they are quite in demand due to the lower cost than the analogues of popular manufacturers. The content of the online cinema can be Western and Russian series. At the same time, Chinese companies already have the rights to broadcast a number of Hollywood films in China and can agree with the Western partners to expand these rights to Russia, he stressed. Moreover company is planning to open its official office in Russia.

**Regulation.** This part is described mainly on the information gained from the interview with Ivan Terkunov. He provided us with a wide overview of the legal aspects and government regulations in e-commerce sphere in Russia. The main outcomes from the interview in terms of government regulations are following:
1. Overall government regulations in e-commerce sphere in Russia are quite soft and Russian market is attractive for foreign e-commerce companies. Unlike many other business areas in Russia, e-commerce is still is not regulated and there is no legislation specifically designed for regulation of e-commerce. At the moment this branch is regulated by the norms of the Civil Code of Russia and a number of federal laws that originally intended to address issues outside the electronic context (Terkunov, 2017).

2. However, in 2011 the law on electronic payment systems was adopted, as well as significant amendments to the current law on personal data. 2014 amendments have changed the rules of the game for many foreign and some Russian players. Alibaba provides safe system of personal contacts and data, moreover since AliExpress targeted to operate in Russia no problems with payment and information flow was noticed.

3. In 2015, Russian President Vladimir Putin instructed The Government of the Russian Federation to work out measures to support Russian companies in the field of Internet-Trade. The Ministry of Industry and Trade was commissioned to develop a strategy for the development of the sector. Office plans conditions for Internet commerce within the country, as well as to simplify and reduce the cost of conditions export of Russian goods when they are sold from marketplaces.

4. Russian legislation (in the field of taxes, consumer protection, and technical regulation) does not apply to foreign online sellers. Import of imported goods purchased by Russian consumers abroad via the Internet is regulated by the Agreement of the Customs Union "On the procedure for the movement of goods by individuals for goods of personal use through the customs border of the customs union and the commission of customs operations associated with their release "of 18.06.2010 (Terkunov, 2017). Online purchases made by Russian consumers are delivered via international mail and are treated as goods for personal use.

5. The costs of doing business in Russia, foreign stores (not having representative offices in Russia) do not carry and can offer consumers lower prices for goods. This is especially true during the economic crisis of 2014-2015. According to this regulation China has one of the smallest customs import duty which is 12%-24% depending on the type of product (Terkunov, 2017).
Business model. Since main service Alibaba offers in Russia is AliExpress platform the business model and value proposition analysis will be based on AliExpress platform. Main insights are provided based on the interview with the company representative Ivan Terkunov.

Key partners (KP). In Russia Alibaba has a variety of different partners which provide logistic, promotion, financial services for the platforms. In comparison to China where company makes subsidiaries whenever partner is needed in Russia Alibaba mainly cooperates with local companies. The main partners are the following:

External Transport Agency. This year in September SPb GKU “External Transport Agency” signed a protocol with the Chinese “Yingkou port network technology Co” on cooperation in the preparation and implementation of investment projects in the development of transport and logistics capabilities of St. Petersburg. The Alibaba project in St. Petersburg provides the creation of a logistics center for the accumulation and distribution of goods purchased by Russian citizens in the Internet shops of the PRC throughout the European part of the Russian Federation (Terkunov, 2017). The company intends to reorient the logistics chain of supply of Chinese goods to Russia to the Big Port of St. Petersburg. Now the Alibaba’ cargo is delivered either by aviation or by rail, mainly through Moscow. The company also plans to open a distribution warehouse to create stocks of the most popular goods, to send them to customers without delay, therefore the delivery time will be reduced to 2-3 days (Terkunov, 2017).

Russian Post. In 2013, “Russian Post” opened a logistics center for customs clearance and sorting of mail cargo in the Moscow airport Vnukovo, in 2014, established the exchange of electronic data with Chinese mail. If the delivery of the parcel is carried out by the state mail of China, Singapore or Hong Kong, and if parcel has an international tracking number, then customer receive the parcel at their post office of the Russian Post. Now company delivers almost 80% of all purchases at the website (Terkunov, 2017).

Posti. The Chinese trading platform Alibaba, has chosen postal organization Posti from Finland to send to Russia parts of goods sold in the company's online store – AliExpress (Posti is going to carry about 20% of all shipments from AliExpress from China to Russia). As in the case of direct shipment from China, the delivery service by Finnish mail will be free, and you can pick up the order in one of the offices of the "Post of Russia", which will still be responsible for the "last mile" (Terkunov, 2017).
Qiwi wallet. In 2012 AliExpress started cooperation with Qiwi money. Cooperation with QIWI served as an impetus for the quality development of AliExpress.com in Russia and provided its users with a reliable and secure payment channel. Now every Russian buyer can instantly and without commission pay for his online order using any of the QIWI Wallet interfaces. QIWI Wallet is integrated into AliExpress.com using the Alipay API.

Yandex money. Since July 1 2014, AliExpress has launched the opportunity to pay for purchases with the help of Yandex.Money, as well as from a mobile phone account and cash through 170 thousand payment points, including Sberbank's lounges and terminals (Terkunov 2017).

Sberbank. Recently in January 2017 Alibaba announced the joint venture with Sperbank. The joint venture can be created only as a Russian legal entity, in which Sberbank will have at least 50%. The venture, which may become one of the largest players in Russian e-commerce, could be worth several billion dollars. It is assumed that Sberbank will invest in the new company primarily money, as well as marketing and logistics technologies. Alibaba Group can contribute to the joint venture its existing business of cross-border trade in Russia and the CIS, as well as, possibly, in Turkey and some Eastern European countries. Because of this joint venture in March 2017 Yandex reported possible risks for “Yandex.Money” in the event that Sberbank and AliExpress will create a joint venture in the field of e-commerce. The possible cooperation of Sberbank and AliExpress can negatively affect the brand and business of Yandex.Money, since its business is built on joint work with the bank. Moreover the joint venture between Sberbank and AliExpress could also compete with the Yandex.Market service.

It can be concluded that in comparison to China where Alibaba instead of making contracts make its own subdivision in different areas in Russia company cooperates with different companies mainly in logistic, financial spheres. In comparison to China in Russia Alibaba doesn’t cooperate with any special advertisement services and promotes itself mainly by its web site and Vkontakte page.

Key activities (KA). In this part key activities of AliExpress will be presented.

Help Chinese companies enters Russian market. The core business of Alibaba in Russia is e-commerce platform AliExpress. In the first quarter of 2013, Russians made 43% of the total number of transactions on the site. In 2015 AliExpress became the largest online store in Russia, outperforming eBay, Ozon and Yulmart. Now citizens are united in social networks and receive
Chinese goods by AliExpress through the "Russia Post" - almost $ 2 billion per year (Terkunov, 2017). Now mainly Chinese companies sell their products by AliExpress. This platform gives them a great opportunity to enter Russian market without establishing their own shop in the country.

**New sales channel for international brands.** In November 2015, the Chinese online retailer AliExpress began selling International goods in the framework of the special project "AliExpress Mall", launched with the participation of the Ministry of Industry and Trade of the Russian Federation (Terkunov, 2017). The main benefits of AliExpress mall are warehouse in Russia and therefore quick delivery (1-14 days), higher quality of goods, Russian customer service and opportunity to return purchased product within 7 days if it can be sold again. For several months of work of a separate section on AliExpress, where clothes, footwear and accessories of Russian companies were presented, the buyers made only 24 orders, another 552 products were postponed to "My Wishes". According to statistics, the project was visited by more than 130 thousand people, so the promotion of International goods was quite successful (Terkunov, 2017). Another thing is that nobody especially planned to buy them. According to the questionnaire 86% of respondents have never purchased by Ali Mall In November 2015 a special division “Made in Russia” was opened, but it didn’t become very popular. Now the page of the section “Fashion. Made in Russia” on AliExpress exists, but many sections are inactive, the goods are not sold there.

**Provide buyers with a huge online retail platform with supporting services.** Since in Russian AliExpress is mainly B2C platform management team of the platform pays a lot of attention to the buyer side. The registration process for buyers will be described in the following part. Customer relationships will also be described further. AliExpress has several services which support its operations and help to attract more customers. One of the main services is iTao.

Women are the most active audience of AliExpress (Terkunov, 2017). Especially for Russians, AliExpress has created a popular iTao shopping network: more than 600,000 registrations and more than 1,500 new posts every day. Girls put pictures of things bought on the site. The level of mistrust towards the Chinese goods is quite high, and the first purchase of a person needs to be pushed. This is the goal of iTao. In China, the site is blocked so that sellers do not post false positive reviews. Moreover iTao has its own page in Vkontakte which has about 100000 followers. The future of the site is to create a new network of live communication with the help of a mature network of buyers of online stores around the world. Visitors have the opportunity to subscribe to favorite authors, the
ability to search for goods on a photo, discussing the intricacies of buying abroad; reselling what has not come up. In the future, customers will be able to organize interest groups, as well as improve their photography skills (Terkunov, 2017).

**Marketing & Advertising.** In comparison to China where advertisers (those who promote their goods and services by AliExpress) can be separated as a customer segment in Russia advertising system is not that developed. In Russia only companies selling their products by AliExpress can post their advertisement on the company’s official web-site and in Vkontakte group.

**Key resources (KR).** Resources of Alibaba in Russia are divided in the same categorize as in China.

**Intangible.** Key resource of Alibaba is its intangible asset - its digital platform.

**Tangible.** Alibaba has its own office in Russia in Moscow and in Vladivostok. Moreover Chinese company Cainiao, a subsidiary of Alibaba Group, which delivers 70% of parcels in China, will open office in Russia. The head of the Russian Alibaba is 38-year-old Mark Zavadsky who graduated from the Institute of Asian and African countries at Moscow State University (Terkunov, 2017). In 2004, he moved to Hong Kong for permanent residence, worked as a regular correspondent for RIA Novosti and Expert magazine, collaborated with China PRO, Weekend, Russian BBC Service, Big Business magazines, and Russian Newsweek. He created the Hong Kong company Asia to Go and directed it. In September 2014, Zavadsky was appointed head of business development for AliExpress in Russia and the CIS and CEO of Alibaba.com (RU). Moreover Alibaba has its own storage in Russia and its own show room in Moscow. The first show-room of the Chinese online retailer (Ukrainian Boulevard, 6) was opened in the order issuing center, created earlier in Moscow by AliExpress and SPSR Express in on permanent off-line site products from China 41 brands, including clothing, smartphones and other devices are presented. The offline shop is not promoted efficiently and a lot of customers don’t know about it. As Ivan said during the interview this year MT of AliExpress Russia is planning to focus more on the marketing aspect of its business.

**Human resources.** Since there are only two offices in Russia which are not very big and office in Vladivostok is mainly responsible for the logistic operation the number of employees is not very big – about 16 people are working in Russian Alibaba (Terkunov, 2017). Alibaba is going to expand
the number of offices and in following few years is going to open new office where one will be in Saint-Petersburg.

In comparison to China the number of employees in Russia is much less – only about 16 people. This is explained by the fact that company just recently entered Russian market and is going to extend its presence by opening new shops. In addition to two offices company also opened offline shop in Moscow which is quite popular. Alibaba is also planning to open its own logistic center in Saint-Petersburg. One more difference between Russian and Chinese tangible resources is that in China Alibaba have several data centers which are responsible for the business of the company.

**Value proposition (VP).** This component will be described in more details in the following part – Value Proposition canvas in Russia.

**Customer relationship (CR).** When we talk about customer relationship in Russia we can identify three main areas of analysis:

**Buyers**

*Shopper online.* This function is very popular among Russian customers. They can find social groups in Vkontakte or information on Alibaba web site relating to the people who can help customers to find products they want. This function is not free and costs about 2-3$. According to the questionnaire only 36% of respondent used shopper online. It can be concluded that this service didn’t become very popular maybe because people would rather like to spend more time than more money, or because they don’t trust others and don’t wasn’t to share the responsibility of searching.

*iTao.* As it was mentioned before iTao doesn’t work in China but is quite popular in Russia. Customers can post pictures of thing they bought on AliExpress with description, moreover they can resell them. This service increases trust in the company since customers see how the product looks on real people and can read more detailed description. Moreover there are a lot of style bloggers who provides users with sets of clothes for different seasons or occasions. According to the questionnaire 67% of respondents used iTao service and found it helpful, 13% were not satisfied with the service and the rest have never used it. It can be concluded that this service which was created in order to force buyers to make a first purchase became popular since more than a half of respondents used it and found it helpful, but still there is a place for improvement of the service.
Vkontakte social groups. Upon the request of AliExpress, there are 5,735 communities in VKontakte (Terkunov, 2017). In the regions - Ufa, Rostov-on-Don, Pskov, Surgut and others - users create groups to boast of shopping. The official community has more than 1.5 million subscribers. There are a lot of different group in Russian social network Vkontakte which are called “Look what I found on AliExpress” where buyers share interesting things they found on the website. This increases the interest in the platform.

Buyers&Sellers

Customer support. As in China there is a hot line 24/7 for Russian customers where operators can speak Chinese and English, moreover customers can write email to the support services. In addition to that the same system as in China (after a customer confirmed receive of a purchase money will be withdrawn) works in Russia. This hot line and email service works for both buyers and sellers. According to the questionnaire 97% of respondents at least once used AliExpress help service and 80% of them found it helpful.

Apps. App for buyers includes AliExpress app where customers can make purchases by using their phone, moreover iTao as the app also exists. App for sellers include app similar to sellers in China because they can be the same companies selling in different countries. In the app there is a special division where a seller uses the country he wants to manage. Mobile purchasing is not very popular in Russia no and this fact can be partly supported by the result of the questionnaire where 75% of respondent said that they prefer to make purchases by AliExpress web page rather than using mobile app.

Promotion channel (PC). In Russia as in China Alibaba promotes AliExpress by the official page where customers can find all necessary information and ads on other web sites, moreover company has Vkontakte page which is also quite popular. iTao is a kind of promotion channel since it helps to attract new customers. Moreover AliExpress launched the first TV advertising campaign in the world and chose Russia to launch the video (Terkunov, 2017). The campaign lasted till November 11 2014 and was released on the channels "First", "Russia-1", "REN TV", "Match TV", "TV-3", "Friday". In addition to that AliExpress billboards together with the courier service SPSR are located in Moscow airports. Also in 2015, AliExpress placed on bikes in the capital banners with a ridiculous translation of the names of goods. In addition to that company promotes itself by mobile apps as it was mentioned before in Customer Relationship part. Moreover AliExpress participates in
different events in Russian such as conferences and seminars related to the e-commerce sphere. Company participates both as a participant and as a speaker. According to the questionnaire 60% of respondents get to know about AliExpress latest news by the official page, 37% by AliExpress group in VK and 3% by the ads of AliExpress on other web sites. Such results can be explained by the fact that mainly AliExpress customers were asked, almost all of them followed AliExpress page in VK and they all often visited the official page of AliExpress. Moreover 86% of respondents answered that they find AliExpress page in VK interesting. The main reasons are that it provides them with latest news (85%), they can participate in competition and win discount coupon (10%).

Customer segment (CS). There are four main customer segments in Russia:

Sellers.

Chinese companies. As it was mentioned mainly Chinese companies sell their products by AliExpress. They are the biggest seller segment and account for approximately 90% of sellers (Terkunov, 2017). These companies are almost the same sellers as in China – they operate in to different markets.

International/Russian companies. The majority of good purchased in Russia are by Chinese sellers but there is a special division on the web site called Mall – where Russian and International companies sell their goods. There are about 1000 Russian brands which are sold there. The value proposition for Russian sellers will be described in the following part. Russian sellers segment is not very developed and there is still place for improvement. In Russia Alibaba focuses more on the buyers segment.

Buyers.

Russian individuals. In China both males and females prefer to make purchases online, while in Russia 80% of all purchases are made by women. Even iTao targets women and offers such categorize as maternity, children, and almost no products for men. Since Alibaba started to sell product from Russian companies it targets both small businesses and big international companies. As Alibaba is offering mobile app with different games it can also be concluded that company tries to target teenagers who are the most active users of games.

Russian resellers. Since AliExpress is not only B2C platform but also B2B Russian resellers is one more customer segment. They buy big quantity of goods and then resell it in Russia. These
companies include: smartphone cases and accessorize, cosmetics, organic products, accessorized such as bags, scarfs, glasses. After purchasing they resell it is their own shop platform in different shopping mall. Quite often the margin of the origin price can be up to 200-300%. For example case for iPhone on AliExpress costs 70 rubles with delivery, but in the shop it costs 650 rubles.

**Cost structure (CS) and revenue model (RS).** Relating to the main costs and revenue streams it can be concluded that they are similar to China. Main costs of the company in Russia is not R&D of the platform as in China (In Russia its only 20% of all costs) (Terkunov, 2017). All translations and interface are created in Russia and then sent to the Chinese office where it is implemented and the budget for that is accounted for operations in China. In Russia the cost for marketing is much higher than in China, since company cooperates with different advertisement services, marketing researchers, designers and translators who help company to implement marketing strategy. Marketing cost is the biggest cost in Russia (about 60% of all costs) (Terkunov, 2017).

Revenue streams in Russia also differs slightly from Chinese. The main revenue comes from commission – about 49%. The second biggest revenue stream Ads – about 30%. In China Alibaba posts ads of the website not only of sellers but also of different companies promoting their business online. In Russia situation is different – ads system is still not as developed as in China and company posts mainly ads from international and Russian businesses which sell their products online. Summary table of CS and RS can be observed in the table below.

**Graph 2. Revenue streams in Russia**
Graph 3. Costs in Russia

Value proposition. In China Alibaba covered different types of customers and value proposition was made for three main segments: sellers, buyers and resellers.

Buyers

Jobs. The main job of buyers in Russia is the same as in China – find and acquire goods, although there is a slight difference. The representative of Alibaba during interview answering question if there any difference in reasons and ways how Russian and Chinese people make purchases on AliExpress mentioned that in China buyers are more aimed at what they want, they always know at least the type of clothes they need and exact product. Often when Chinese consumers make a purchase it is always thoughtful decision. In Russian market it is a bit different: when a byer opens AliExpress and even if he has an idea what he is searching for at the end purchase will consist of many different things he maybe will never use/wear and didn’t think about buying before. Ivan explains such behavior by the fact that Chinese market is already very fulfilled with different products for cheap price, while Russian market is “hungry” for everyday life of unique products for a very low price.

Pains. While in China main gains are a lack of trust and low quality in Russia they are high prices and lack of choices in terms of platforms to buy goods. Russian market if also fulfilled with different products but the price is quite high. Especially after European sanctions were implemented and the rate of ruble fell significantly in comparison to few years before a lot of clothes and shoes collections (made in Europe) cost 2-3 times more than they were 2 years ago. Small shops and big chains which create similar shoes and clothes with worse quality started to appear (ex. Kari) but the price there is still quite high. Another pain is related to the previous one: consumers want to buy cheap goods with comparatively okay/good quality. Though according to the questionnaire majority
of respondents prefer to buy by AliExpress there are still some disadvantages of the platform and pains which customers obtain even there:

- Delivery was longer than stated – 34%
- Purchase didn’t match the picture on the web site – 23%
- A lot of fake products with a bad quality – 14%
- Don’t see any disadvantages – 29%

**Gains.** There are three main gains: very low price, variety of choices and lack of perceptions for quality. Russian consumers are very concerned about the price; according to their mentality they use every opportunity to save money even if it makes quality a little bit worse. Moreover as it was mentioned before quite often they make unthoughtfull decisions while purchasing on AliExpress therefore a variety of choices is very important. Russian market is not that diversified as Asian and a of product which are presented on AliExpress are impossible to buy somewhere else. According to the questionnaire the main reasons why people purchase by AliExpress are the followings:

- Variety of products – 63%
- Good price – 24%
- Good quality – 6%
- Safe payment – 4%
- Safe and quick delivery – 3%

Value proposition for buyers can be observed in the figure below.

**Figure 22.** Value proposition in Russia for buyers
Resellers

**Jobs.** Resellers include people and small businesses who buy products on AliExpress and then resell it to Russian customers in China with much higher price. These companies often buy different accessorizes for people and for technical devices, jewelry, cosmetic and sometimes clothes. Their main job is to find cheap products and then resell it with the additional price.

**Pains.** Main pain of this segment is a lack of sources and platforms where they can find and acquire goods with a low price. They are concerned not only about the low price but also about the good quality since later they are planning to resell it to Russian consumers.

**Gains.** Main gains of resellers are to find goods for good price with a good quality. Find a platform where there would be a variety of choices so that they would be able to wider their own product range and extend business therefore attract more customers.

Value proposition for resellers can be observed in the figure below.

![Figure 23. VP for resellers](image)

Sellers

**Jobs.** Main job for sellers who operates on AliExpress Mall is to sell their product. Their business is already known and AliExpress is just a new promotion channel therefore they are not pursuing brand recognition as a gain or job.

**Pains.** The main pain for them is the lack of channels by which they could promote their business. They use Alibaba as a marketing platform (Ads). Moreover a lot of these companies don’t have opportunity to sell their products online by web site or by mobile phone. By selling their goods on AliExpress they get access to all these channels.
Gains. The main gains for sellers are repeat customers and new channel for promotion and purchase as it was mentioned before. Now the majority of brand who sell their products on AliExpress Mall are well known so they already have experience with customers and customers database.

Value proposition for sellers can be observed in the figure below.

![Figure 24. VP for sellers](image)

Summary

Russian market is attractive for AliExpress since government regulations are quite soft, moreover there is no dominant players in Russian e-commerce market who has exactly the same business model as AliExpress. There is still some problems Alibaba faces in Russia such as translation of the web site and goods, design and layout adaptation but overall company is doing great in Russian market.

In Russia Alexpress is the most popular e-commerce platform. Strategy of Alibaba in Russia differs from the one in China. In Russia company offers only limited number of services mobile app, iTao and AliExpress.

In comparison to China in Russia platform cooperates with other companies instead of creating its own subsidiary. AliExpress cooperates mainly local with logistic companies and financial/payment services in order to adapt its operations to the country specifics. Alibaba is also planning to expand its presence in Russia by the creation of new offices and logistic center in Saint-Petersburg.

Alibaba adopted all elements of its AliExpress business model to the Russian market: logistic system, payment system, promotion channels, financial offers (Only in Russia company allows customers to buy with a loan). Moreover Alibaba created a new part of AliExpress which is
called “Mall” – a division on the website where goods from Russian producers are presents. Company also opened storage in Russia in order to minimize price for goods.

Customer relationships are developed and include different communication channels, such as social network groups and website as in China. Moreover company has additional services for customers – iTao which supports AliExpress and Russian Mall, where customers can return the purchase within 7 days and get it within 7-10 days. Moreover company has additional service called shopper online which helps to make purchases and find goods on AliExpress.

Main cost of the company is marketing which is about 60% of all costs. This can be explained by the fact that Russia is not the country of origin and company spends a lot of money for marketing and research agencies which help to understand the market and implement new marketing and promotion strategies. Main revenue stream comes not from Ads as in China but from the commission (almost 50%), since ads system is still not developed in Russia.

Value proposition of AliExpress in Russia differs from the one in China slightly. Difference in value proposition is that in Russia Alibaba became successful due to the being first who offered customers to buy the same good as they see in shops but 10 times cheaper. In Russia market is not as fulfilled with different products as in China therefore customers felt a lack of products for a good price, moreover Alibaba entered Russian market in time – when European sanctions where implemented, the rate of ruble fell down and the price for many products sold in shops increased significantly. Moreover in a few months company is planning to let Russian entrepreneurs to open their own shop on AliExpress and sell goods there.

AliExpress strategy in Russia in the future is to start to open new services which already exist in China. In Russia company has a lot of ambitious and smart employees who carefully analyze Russian market and has a global vision on how company can adopt its services in Russia. As we understood during the interview with company representative Alibaba is planning to extend in Russia, open new offices, new services which are now confidential information. Business model of AliExpress Group in Russia can be observed in the graph below.
4. DISCUSSIONS AND CONCLUSIONS

4.1 Discussion of the findings

The goal of the Master thesis was to identify the way Alibaba Group Holding Limited adopts its B2B/B2C business model components in Russia. As a result of the analysis of initial business components in China and evolution of business components in Russia, the following summary tables were created. In this table main similarities and differences in a set of components are illustrated and analyzed.

Table 6. AliExpress business model in Russia

<table>
<thead>
<tr>
<th>AliExpress BM and VP adaptation</th>
<th>China</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Registration process</strong></td>
<td>Same: for sellers registration process is similar</td>
<td>Differ: for buyers process more complicated (since B2B)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key partners</th>
<th>Key activities</th>
<th>Value proposition</th>
<th>Customer relationship</th>
<th>Customer segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Post, Posti, External transport agency, Qiwi wallet, Yandex money, Sberbank</td>
<td>Help Chinese companies enter Russian market, New sales channels for international brands, Provide buyers with huge online retail platform + supporting services, Marketing &amp; Advertising</td>
<td>Sellers: Addition promotion and purchase channel, Ability to enter new market, Buyers: Low price and variety of choices, Resellers: Low price and lack of similar platform</td>
<td>Buyers: Shopper online, iTao, Vk social groups, Buyers &amp; Sellers: Customer support, Apps</td>
<td>Sellers: Chinese companies, International/Russian companies, Buyers: Individuals in Russia, Resellers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key resources</th>
<th>Key activities</th>
<th>Value proposition</th>
<th>Customer relationship</th>
<th>Customer segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible (Platform), Tangible (offices, storage, offline shop), HR</td>
<td>Help Chinese companies enter Russian market, New sales channels for international brands, Provide buyers with huge online retail platform + supporting services, Marketing &amp; Advertising</td>
<td>Sellers: Addition promotion and purchase channel, Ability to enter new market, Buyers: Low price and variety of choices, Resellers: Low price and lack of similar platform</td>
<td>Buyers: Shopper online, iTao, Vk social groups, Buyers &amp; Sellers: Customer support, Apps</td>
<td>Sellers: Chinese companies, International/Russian companies, Buyers: Individuals in Russia, Resellers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost structure</th>
<th>Revenue stream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing (60%), Platform R&amp;D (20%), Others (20%)</td>
<td>Commission (49%), Advertisement (30%), Others (21%)</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td><strong>Regulations</strong></td>
<td>Same: soft regulations in both countries</td>
</tr>
<tr>
<td><strong>Evolution of Key partnership component</strong></td>
<td>Same: key partners are in the same area: logistic, payment</td>
</tr>
<tr>
<td><strong>Evolution of Key activities component</strong></td>
<td>Same: helps foreign companies to enter the market</td>
</tr>
<tr>
<td><strong>Evolution of Value proposition component</strong></td>
<td>Same: variety of products and a good price for value is the main gain of customers</td>
</tr>
<tr>
<td><strong>Evolution of Customer relationship component</strong></td>
<td>Same: Developed customer relationships service, focus on the support of all sides of customers</td>
</tr>
</tbody>
</table>
Evolution of Customer Segment component

| Same: approximately similar number of customer segment | Differ: includes Chinese small business and entrepreneurs, moreover include advertisers who doesn’t operate on AliExpress. B2B mainly | Differ: 80% women purchase Russian small entrepreneurs don’t sell on the web site, but buy goods and resell it by their own shop in Russia. Doesn’t include advertisers from outside the platform |

Evolution of Key Resources component

| Same: intangible assets varies | Differ: The biggest number of offices and storages, the biggest number of Human Resources. Own logistic center. Presence of data center | Differ: Only 2 offices, lack of logistic center, only 16 people at office. First offline shop |

Evolution of Channels component

| Same: digital promotion channels are prioritized, promotion is mainly by its own web sites | Differ: Promotion by Alibaba own events, mobile apps promotion | Differ: First promotion by TV Promotion by using anti promotion way in Vkontakte |

Evolution of Cost Structure Component

| Same: similar main costs | Differ: marketing cost is much less (16%) | Differ: Sales&Marketing cost is much higher in Russia (60%) |

Evolution of Revenue Streams Component

| Same: Same main revenue streams: ads, commision&transaction | Differ: Revenue from Ads is much higher (50%) | Differ: Revenue from commission is higher (50%) |

Table 9. Summary table
As it is seen from the table above there are a lot of differences between AliExpress BM components. Alibaba follows quite different strategy in countries. Market conditions in both markets are attractive for the company, high internet penetration, high number of potential consumers and increase of popularity of e-commerce influences Alibaba decision to expand. Government regulations in both countries are pleasant and friendly. In China company gets an advantage from government protection policies since the country of origin is China. In Russia company faces some challenges in terms of higher taxation in comparison to Russian companies but still regulations in Russia allows company to operate without any problems.

Relating to the registration process it is quite similar in China and in Russia since sellers in both countries are mainly representatives of China. When the testing for Russian sellers will be opened within next few months the registration process could be compared in more details. Relating to the registration of buyers, due to the fact that in Russia individuals are main buyers segment the registration is easier for them than for businesses in China.

In terms of Key Partner in China Alibaba creates its own subsidiary when partner is needed while in Russia company cooperates with local companies. Promotion channels also differs slightly. While in China the main focus is made on mobile apps in Russia company focuses on AliExpress website and social network such as VK. This year is going to be devoted to the search of new promotion channels in Russia since company is not satisfied with the results from its marketing campaign.

Customer segment differs slightly. While in China sellers now are mainly Chinese companies together with small business and entrepreneurs (in the future focus will be made on International sellers in China) and buyers are mainly small local businesses in Russia mainly individuals buy products for their own need. Now platform is not very popular among Russian entrepreneurs, due to the lack of opportunity to sell there. Moreover there is additional segment – resellers, who purchase good on AliExpress and resell them through their own shop with much higher price for Russian consumers.

Since customer segment is different value proposition also differs. While in China AliExpress is an opportunity for small business to attract new customers, get access to the data base, for international companies an opportunity to enter Chinese market and for buyers it is an opportunity to buy and resell goods therefore earn money in Russian market VP is different. For Russian consumers AliExpress is attractive since it offers a big variety of products they can buy for their own needs - as it was mentioned there is no similar platform in Russian market in terms of price.
Though there are a lot of differences there are a lot of similarities: government regulation in both countries are friendly for Alibaba operations. Moreover key partners are in the same areas such as logistic, payment and advertisement. Moreover customer relationships are developed and company gains trust from its customers. In addition to that digital channel of promotion is prioritized in both countries. Relating to the VP it can be concluded that it is quite similar – AliExpress attracts customers by the good value for money. In both countries company tries to create its own ecosystem. Moreover costs and revenue streams are similar in both countries. Main costs are: marketing (which dominates in Russia) and R&D of the platform (which dominates in China). Main revenue in Russia comes from the Commission (in China it has second position) while in China it comes from the Advertisement (in Russia it has second position).

It can be concluded that some all components of Alibaba business model were modified in Russian market. They were adopted to the local market conditions and customer preferences. Still almost all components have similarities since the core business of the company has the same features. Alibaba follows different strategy in countries and adapts is strategy to the local specifics.

4.2 Theoretical implications

The result and the analysis contributes to the theory and study of B2B/B2C business model adaptation in Russian market.

Alibaba Group is Born Global company and now it operates in 8 countries. In Russian market company with its AliExpress platform became the most popular e-commerce platform. Evolution of different components as well as evolution of platform itself and its VP were analyzed. Relating to the business strategy of Born Global the research showed that in order to become successful in the market company should make a deep market and consumer’s research. Moreover company should adapt each element due to the market peculiarities. Peculiarities of Russian and Chinese market were found and analyzed.

One more theoretical implementation of the study is the development of the field of localization of MSP in Russian market. Moreover due to the newest of the Digital platform phenomenon in Russian market there is almost no literature related to the localization of Digital platform in Russian market. All in all, the results provide the basis for the future research on the strategies that Born Global Digital Platforms use in the localization and adaptation process.
4.3 Managerial implications

Relating to the managerial implications it can be concluded that this paper can be valuable for those who works with B2B or B2C platform and is going to expand either to China or to Russia. They can see in which areas they can search for partners, who to develop customer relations and which promotion channels to use. Moreover this paper helps to understand how to create different value preposition for each customer segment.

A lot of Chinese start-ups and accompany are interested in Russian market since it can potentially bring them the big number of customers. In order to enter the market it is important to analyze the peculiarities and mentalities of local people. This paper kind of provides information related to the local specifics of Russian market.

Moreover Chinese market is attractive for Russian entrepreneurs since Chinese economy is developing and the number of potential clients is also very big. This paper also provided with some information related to the government regulations in e-commerce sphere, main players in that market and some local peculiarities and specifics of the market.

4.4 Limitations of the study

The following study has certain limitations that are mostly attributed to the selection of the case company and the industry.

There is limitation related to the chosen company since it started to operate from China and its adaptation strategy can be different from those companies who operates in Europe. In order to wider understand adaptation and localization process it is important to analyze how companies from Europe adopt their BM components.

Moreover the type of the company is MSP, digital platform which appeared quite recently as phenomenon and thus the period of their study is quite short. Study of MSP for longer period could give more deep understanding and give more insights to the adaptation and localization process.
List of literature


### Questions for the interview with AliExpress Russian representative Ivan Terkunov

<table>
<thead>
<tr>
<th>Company business model</th>
<th>Who are key partners of Alibaba in Russia?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What are the motivators for partnerships</td>
</tr>
<tr>
<td></td>
<td>What key activities does company value proposition require?</td>
</tr>
<tr>
<td></td>
<td>How does the business model differ from the ones of competitors?</td>
</tr>
<tr>
<td></td>
<td>Are you going to implement other services which exist in China?</td>
</tr>
<tr>
<td></td>
<td>Which customer classes is company creating values for?</td>
</tr>
<tr>
<td></td>
<td>Who is company most important customer(s)?</td>
</tr>
<tr>
<td></td>
<td>How many storages Alibaba already have in Russia and is it going to extend in terms of tangible assets?</td>
</tr>
<tr>
<td></td>
<td>What are the main costs and revenue streams?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer value creation elements</th>
<th>How do you create value?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Through which channels that company customers want to be reached?</td>
</tr>
<tr>
<td></td>
<td>How do you get feedback from your customers?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Others</th>
<th>Who are main competitors of Alibaba in Russian market?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What can you say about government regulation in e-commerce sphere and how they influence Alibaba operations?</td>
</tr>
</tbody>
</table>
### Appendix B

### Questions for the questionnaire

<table>
<thead>
<tr>
<th>Question</th>
<th>Possible Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have you ever purchased by AliExpress?</td>
<td>Yes/No</td>
</tr>
<tr>
<td>If you answered no to the previous question please provide information about the reasons you don’t use AliExpress</td>
<td>A lot of fake products /Never heard about it/Bad quality/Long delivery/Other</td>
</tr>
<tr>
<td>Which goods did you buy on AliExpress?</td>
<td>Women clothes/Men clothes/Computer and accessorize/Mobile phones and accessorize /Shoes and bags /Jewellery and watches/Goods for the car/Other</td>
</tr>
<tr>
<td>Have you ever purchased by AliExpress Mall?</td>
<td>Yes/No</td>
</tr>
<tr>
<td>Which online platform you prefer to make purchases online?</td>
<td>AliExpress/Ozon/Ebay/Ulmart /JD.com/Other</td>
</tr>
<tr>
<td>Why do you prefer to buy on AliExpress?</td>
<td>Good price/Good quality/ Variety of products/ Safe payment/ Safe and quick delivery/Other</td>
</tr>
<tr>
<td>List main disadvantage of AliExpress</td>
<td>Don’t see any disadvantages/ A few times didn’t get what I ordered/ A lot of fake products with a bad quality/ Purchase didn’t match the picture on the web site/Other</td>
</tr>
<tr>
<td>Do you prefer to purchase by Aliexpress web site or mobile app?</td>
<td>Web site/Mobile app/Both</td>
</tr>
<tr>
<td>Have you ever used AliExpress Shopper online service?</td>
<td>Yes and it was helpful /Yes but didn’t like it/Havent used</td>
</tr>
<tr>
<td>Have you ever used AliExpress help service?</td>
<td>Yes and it was helpful/Yes but didn’t like it/Havent used</td>
</tr>
<tr>
<td>How you get to know about AliExpress latest news?</td>
<td>By AliExpress/Ads on other web sites/ By TV/Aliexpress page in VK / Email alerts/Others</td>
</tr>
<tr>
<td>Have you ever used iTao and was it helpful?</td>
<td>Yes and it was helpful/Yes but didn’t like it/Havent used</td>
</tr>
<tr>
<td>Do you find AliExpress page in VK interesting and helpful?</td>
<td>Yes/No</td>
</tr>
<tr>
<td>If you answered yes to the previous question please specify why</td>
<td>Follow latest news /Can participate in competition and win discount coupon /Other</td>
</tr>
</tbody>
</table>


## Alibaba main ecommerce platforms

<table>
<thead>
<tr>
<th>Ecommerce marketplace</th>
<th>Type</th>
<th>Launch date</th>
<th>Domestic or international</th>
<th>Service offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alibaba.com</td>
<td>B2B</td>
<td>1999</td>
<td>International</td>
<td>Large quantity orders (more than 40 industries)</td>
</tr>
<tr>
<td>1688.com</td>
<td>B2B</td>
<td>2010</td>
<td>Domestic</td>
<td>Small quantity orders</td>
</tr>
<tr>
<td>Aliexpress</td>
<td>B2B (B2C)</td>
<td>2010</td>
<td>International</td>
<td>Small business can buy small quantity for wholesale price</td>
</tr>
<tr>
<td>Taobao</td>
<td>C2C</td>
<td>2003</td>
<td>Domestic</td>
<td>Individuals sell goods for individuals</td>
</tr>
<tr>
<td>Tmall</td>
<td>B2C</td>
<td>2008</td>
<td>Domestic</td>
<td>Thousands of international and Chinese brands sell their products</td>
</tr>
<tr>
<td>Juhuasuan</td>
<td>Group buying</td>
<td>2010</td>
<td>Domestic</td>
<td>Offers short term &quot;flash sales&quot;</td>
</tr>
</tbody>
</table>
Appendix D

Graphical results from the questionnaire with 127 respondents

Have you ever purchased by AliExpress?

- Yes: 87%
- No: 13%

Graph 1. Results from customer’s questionnaire

If you answered no to the previous question please provide information about the reasons you don’t use AliExpress

- A lot of fake products: 4%
- Long delivery: 17%
- Bad quality: 35%
- Never heard: 3%
- Other: 40%

Graph 1. Results from customer’s questionnaire
Graph 1. Results from customer’s questionnaire

**Have you ever purchased by AliExpress Mall?**

- Yes: 14%
- No: 86%

**What are the main goods you buy on AliExpress?**

- Women clothes: 72%
- Shoes and bags: 12%
- Mobile phones and accessorizes: 4%
- Jewelry and watches: 3%
- Goods for the car: 9%

Graph 1. Results from customer’s questionnaire

**Which online platform you prefer to make purchases online?**

- AliExpress: 72%
- OZON: 13%
- eBay: 4%
- Ulmart: 11%
Graph 1. Results from customer’s questionnaire

Why do you prefer to buy on AliExpress?

- 63%: Safe delivery
- 24%: Safe payment
- 3%: Good price
- 4%: Variety of products
- 14%: Good quality

Graph 1. Results from customer’s questionnaire

List main disadvantage of AliExpress

- 34%: The product didn’t match the picture
- 29%: A lot of fake products
- 23%: Delivery is longer than stated
- 14%: Don’t see any disadvantages

Graph 1. Results from customer’s questionnaire

How you get to know about AliExpress latest news?

- 60%: Ads on other web sites
- 37%: AliExpress page in VK
- 3%: AliExpress web page

Graph 1. Results from customer’s questionnaire