

Amazon vs. Alibaba: Comparisons of Two E-commerce Giants based on SWOT Analysis

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Abstract. The widespread pandemic has accelerated the growth of the e-commerce industry. As two of the leading e-commerce companies, Amazon and Alibaba have come through a long way and made huge influences on online retail marketplaces globally. The aim of this paper is to investigate the similarities and differences of the business models between Amazon and Alibaba based on a SWOT framework, which analyzes both companies through four dimensions, strength, weakness, opportunity, and threat. The paper concludes that while both companies have made impressive strategic decisions that help them establish strong stance in the e-commerce market, e.g., customer satisfaction, huge customer base, R&D program, due to the competitive nature of the industry, Amazon and Alibaba face challenges such as replicable business models, crowded marketplace, and external threats like government regulations and volatile marketing environment. Additionally, the paper finds globalization a key determinant in the future growth for both companies and provides insights into ways to improve the companies' future performance.

Keywords: Amazon, Alibaba, E-commerce, Business Models, SWOT.

1. Introduction

Globalization has contributed to the rapid growth of technology and changed the way people use the Internet. Electronic commerce (e-commerce), defined as the commercial transaction of goods and services over the internet, arises with the revolution of the retail industry. More and more online marketplaces emerge over the last two decades, such as Amazon, eBay, Rakuten and Alibaba. In 2020, more than 47% of e-commerce sales were made through online marketplaces, amounting to around two trillion dollars in total [1]. The widespread of the pandemic and lockdown around the globe is expected to show a yearly growth rate of 14.56% in retail e-commerce revenue forecast through 2025, leading to a projected market volume of \$1,365.00 billion [2].

Both known as e-commerce titans, Amazon and Alibaba are two dominant players in the e-commerce industry who combined had over one-half trillion dollars in revenue in 2021. Since 1994, Amazon has grown to become an e-commerce behemoth. With a market capitalization of approximately \$1,735 billion in 2021, Amazon ranked first as the biggest consumer internet and online service company worldwide. Just as Amazon dominates the e-commerce industry in the US, Alibaba is the undisputed leader of e-commerce market in China, which ranked second worldwide of the e-commerce companies with a market cap of \$328 billion [3]. "China now boasts the world's largest e-Commerce market, the rise of which could power domestic consumption, creating a new engine of economic growth," says Morgan Stanley [4]. Alibaba, unlike Amazon which operates as a single unit, is divided into three core businesses: Taobao, Alibaba, and Tmall. The Taobao Marketplace that Alibaba launched in 2003 has grown to become China's largest online C2C online platform and dominates 80% of online purchase in China. Moreover, Ravi Sharma, Banking and Payments Lead Analyst at Global Data, states that two of the largest e-commerce markets were the USA and China, further reinforcing Amazon and Alibaba's positions as established e-commerce platform which based respectively in the US and China [5]. While Amazon and Alibaba both strive to provide ease of transaction between consumers and merchants, their business models differ in consideration of market position and operating environment. Yves Martin, director of analysts Wavestone, indicates that "Amazon buys and resells stock: it's retailer logic" [6]. As a reseller,

Amazon owns its own inventory and supply chains that sell merchandise directly to the consumers, while Alibaba works as a marketplace that serves to connect buyers and sellers together.

This paper focuses on making an objective comparison of Amazon and Alibaba by analyzing similarities and differences in their business models with SWOT. Finally, the paper will provide insights and predictions on the companies' performances in the future.

2. Method and Data

2.1 Method

SWOT analysis is widely used as a framework to identify and analyze a company. It contains four parts, strengths, weaknesses, opportunities, and threats. Strength, in the SWOT framework, refers to positive factors or features of the organization that distinguishes it from the other companies. Weakness refers to constraint or defect of the organization that keeps it from performing at its optimum level. Opportunity refers to any favorable situation that can generate positive outcome. Threat refers to anything that poses a risk to the company's growth or success. Strength and Weakness are internal factors which can be controlled by the company, whereas opportunity and threat are external factors that cannot be controlled.

2.2 Data

Amazon, an American multinational technology company founded by Jeff Bezos in 1994, starts off as an online marketplace for books and expands into an internet-enterprise, which businesses include e-commerce, cloud computing, artificial intelligence, and digital streaming [7]. Alibaba group, also known as Alibaba, is a Chinese multinational technology company founded by Jack Ma in 1999, which specializes in e-commerce, cloud computing, digital media, and other business offerings. The company's core business is its online shopping platform, which dedicates to offer digital marketplace for transactions between consumers and merchants.

3. Results and Discussion

3.1 Strengths

Customer Satisfaction. Amazon and Alibaba are both leaders in customer experiences. In the last reported quarter 2022 Q1, Amazon reported net sales of over \$116.44 billion, up by 7% year-over-year from \$108.52 billion [8]. As indicated in its latest annual report of 2021, Jeff Bezos explains the notion of customer obsession: "we seek to be Earth's most customer-centric company and believe that our guiding principle of customer obsession is one of our greatest strengths." As Amazon first launched in 1994 which declares to offer "Earth's biggest selection and to be Earth's most customer-centric company," Amazon never fails to put their customer experience in the first place, which put it in the role of a dominant leader in e-commerce industry. Besides, a survey by Foresee which asks over 24,000 customers to rate their satisfaction with the top 100 retailers, Amazon receives a score of 88 out of 100, which was the highest attained by any retailer in the study [9]. As for Alibaba, it also receives high rating of customer satisfaction with an overall Customer Satisfaction score (CSAT) of 83 rated by its users and customers [10].

Customer Base. As the largest online retailer in the world, there're over 310 million active Amazon customer accounts worldwide, with over 100 million of Amazon Prime members spending an average of \$1,300 per year on the platform [11]. After Alibaba's first launch in 1999, the company proposes the strategy of "Meet at Alibaba". That is, it provides free membership to attract clients who wish to build more business opportunities in Alibaba. The company stresses on the importance of efficient transactions between parties, as the slogan states "to make it easy to do business anywhere". In 2003, Alibaba invested RMB 100 million to launch Taobao, an online trading platform, which aims to build the world's largest online retail website. As of 2005, Taobao had over 13.9 million

registered members, and the volume of transaction reaches RMB 3.03 billion, accounting for 70% of China's C2C market. Alibaba has made great achievements in expanding domestic and international markets for domestic SMEs. Besides its successful marketing strategy, Alibaba has an intrinsic domestic advantage of a huge population base in China.

Business Diversification. Amazon and Alibaba have wide business diversity as they run multiples websites and own different businesses. Amazon owns more than 100 companies across different market sectors in the US, which dominates “67% of the online books, music, and video market; 46% of the online computer and electronics market; 45% of the online toy market; and 34% of online furniture sales” [12]. On the other hand, Alibaba’s e-commerce business is diversified across C2C, B2C, and B2B services, including companies such as Taobao, Tmall, Freshippo, Aliexpress, Lazada, Alibaba.com, 1688.com, Youku, DingTalk, Alimama, Alibaba Cloud, and Cai Niao [13].

International Influence. Amazon dominates international marketplace with its international online population reaching 1.2 billion people. “It’s Amazon’s world, we just live in it.” As the title of a CNN article indicates, Amazon is important in that it shapes the American economy in its own image. In fact, around 33% of Amazon’s total sales is generated outside of the US in 2021. The company operates across 5 continents and spans 58 countries. Meanwhile, Amazon has launched a new program in India last year that allows local shops to sell on its platform. The program is reported to have over 5000 Indian businesses joined [14]. With a market capitalization of over \$1.7 trillion, Amazon redefines retail and leads to significant change in consumer shopping patterns. On the other hand, Alibaba's success is accounted for its impressive strategic decision in fully analyzing the market environment at that time, accurately finding the market demand, and forming strategy in response to those demands. Besides providing free information to small and medium enterprises, Alibaba has taken a step further by providing Chinese companies with international buyers and charging these companies certain amount of membership fees, which is a win-win situation for both sides. In recent years, Alibaba has accelerated expansion into overseas markets “with extensive coverage in approximate 200 countries and regions around the world” [15]. By the end of 2021, the company’s global business volume has grown 41% and 285 million increases in its active annual consumers of global businesses, with over 62% increase in its order volume annually.

Innovation. As e-commerce industry requires strong research & technology, defined as “an expense arising from studies and product development processes”, to achieve ongoing growth, both companies have invested a lot of money into R&D to remain ahead of the competition. In 2020, Amazon’s annual report 10-k has indicated that it spent \$42.7 billion on “technology and content”, which includes “payroll and related expenses for employees involved in the research and development of new and existing products and services, development, design, and display of products and services made available in our online stores” [16]. On the other hand, Alibaba also made great efforts in boosting its R&D speed that it plans to increase the amount to \$15 billion over the next three years. Notably, the company plans to dedicate its R&D spending to three categories of AI, including machine learning, visual computing, and natural language possessing (NLP) [17]. As for the past 12 months, “Alibaba has spent 8.8% of total revenue on R&D” [18]. These R&D programs have helped the two companies to remain their positions in the e-commerce businesses and the cutting edge of technology.

3.2 Weaknesses

Limited International Exposure. While Alibaba has extended its businesses worldwide, majority of its customers are from China. Alibaba’s revenue has grown year-by-year, but its international e-commerce retail accounts for only 5% of the company’s revenue in 2021 [19]. Compared to Amazon’s 33% international sales, Alibaba’s overdependence on a single market may hinder its future growth worldwide.

Counterfeit. Alibaba has long struggled with the problem of counterfeit goods being sold on its online platform Taobao. With low barriers for sellers entering the market, many sellers sell fake products with low quality, low price, and real name on the shopping platform. In 2017, Alibaba

recruits more than 2,000 employees to monitor its market transactions and sniff out low-quality goods based on its self-developed software. Jack Ma, the founder of Alibaba, blamed this issue on the weak counterfeiting law of China. As he wrote, “If the penalty for even one fake product manufactured or sold was a seven-day prison sentence, the world would look very different, both in terms of intellectual property enforcement and food and drug safety, as well as our ability to foster innovation” [20]. While the weak law may have contributed to the situation, there’s still doubt that Alibaba doesn’t make enough efforts in combatting the counterfeits. According to Bharat Dube who is the chief executive of Singapore-based Strategic IP Information that works with Alibaba to protect intellectual property, the process of dealing with complaints or reports on fake products can take up to ten days for Taobao. Dube indicates that approximately “50% of Taobao’s goods are either fake or infringing on the intellectual property rights of others” [20]. Compared to Alibaba, Amazon does a great job on protecting against fraud and counterfeit. In 2021, Amazon has invested more than \$700 million and employed around 10,000 people to fight against fake goods by examining products and merchants before putting them online. It turns out that the efforts have paid off since “fewer than 0.01% of products sold on Amazon last year received a counterfeit complaint from a customer” [21].

Crowded Marketplace. The huge number of sellers on Taobao (Alibaba’s major online shopping platform), which is its advantage, can also be its disadvantage. While there’s massive transaction information, the information quality is low. With over 150,000 sellers competing on the platform, it is hard for sellers to make profit unless they rank high in specific sector or buy advertising space to be on the top of the list. In this case, some sellers will choose to lower their prices and sell at unprofitable rate. In the long run, the loss of profit will lead more and more sellers to withdraw from the market.

Imitable business model. Online retail business model can be easily imitated for its low customer switching costs. Alibaba and Amazon’s business models are imitable as they both serve as a third-party platform that create opportunities for other firms to impose greater competition against the e-commerce giants. Online retail stores that sell unique goods have one massive benefit over the massed-produced products on Amazon and Taobao. As Rhiannon Taylor, founder of online boutique RT1home, suggests, people can design their own websites and manufacture unique goods which Amazon can’t compete, such as specialization in high-quality furniture, toys, tableware sets, etc [22]. These small businesses, on the other hand, can grow large and become one of the competitors in the e-commerce industry.

Membership Fees. While Alibaba initially starts off by offering free services for sellers, after entering the e-commerce industry for five years, Alibaba changes its marketing strategy from “Meet at Alibaba” to “Work at Alibaba” and begins to charge membership, which makes them less attractive for potential customers. The annual trust pass fee for domestic seller is around \$250, while international sellers who want to get their online stores on the shopping platform must pay around \$2000 membership fees annually. Because of the outstanding numbers of sellers on Taobao, many sellers must pay additional advertisement fees to get their products shown on the front list.

3.3 Opportunities

Brick-and-mortar. While Alibaba and Amazon are known as online retail, expansion in brick-and-mortar stores will “strengthen new retail vision and serve more consumers with a fully integrated experience”, as stated by Daniel Zhang, CEO of Alibaba. Both companies are launching their brick-and-mortar stores to “blend online and offline shopping experiences” [23]. As for Amazon, it has also begun its pilot program in mixing the e-commerce and physical retail worlds by opening its first brick-and-mortar clothing “Amazon Style” in LA. The store enables customers to try out their selections on the Amazon app in a physical fitting room. The program provides local customer who want same-day delivery with convenience [23]. On the other hand, Alibaba employs its new retail concept by opening over 300 Freshippo supermarkets “Hema Shengxian” in 20 cities of China. In the supermarket, customers can learn about a product’s origin and other information by simply scanning the QR code besides.

The opening of brick-and-mortar stores will allow Amazon and Alibaba to integrate their e-commerce data into improving people's experience in shopping in the real life.

Globalization. Becoming a globalized company requires tremendous efforts and opportunities. The outbreak of the epidemic COVID-19, in a sense, has accelerated the development of the e-commerce industry as many countries have invested more money on online transactions. While Alibaba has already made huge profits in its base country, China, it should consider expanding its services worldwide which may bring more business opportunities and significant growth to the company. As the chairman of Alibaba, Daniel Zhang, once announced, "with Alibaba's success in expanding the domestic e-commerce market in the past 20 years, it's very hard to achieve the kind of fast growth in China that meets the expectations of capital markets" [24]. To achieve the company's long-term goal of "serving 2 billion customers" globally, Alibaba should focus on the company's stance in the international market and utilize its intrinsic advantage as "company like Alibaba that is already established will seem to be a very attractive company in the eyes of the businesses" [25]. Additionally, Alibaba has a natural advantage to become a globalized cooperation with its large number of investors overseas.

Delivery Fees. Amazon and Alibaba have different delivery strategies. Amazon has its own delivery department called Fulfillment by Amazon (FBA) that handles 67% of its deliveries, which means the company depends on external contractors for delivering the other 33% of their products to customers. By offering consumers with free shipping through the third party, the company spends millions of dollars annually for delivery fees. While this may seem a small amount of cost regarding Amazon's overall profits, Amazon could consider cooperating with other logistic companies to establish a new smart logistic platform service like Alibaba did in 2013, which is called "Cainiao". Cainiao platform has created a cross-border distribution system with 16 special cross-border routes, 74 cross-border warehouses, over 90 logistics partners in about 220 countries and regions [26]. The platform enables logistic companies of other countries to cooperate with Alibaba when consumers make cross border trade. Amazon could consider improving its delivery service partner, the third-party providers, to establish efficient cost control.

3.4 Threats

Aggressive Competition. While the marketing strategies and business models of Amazon and Alibaba enable their high growth and expansion in the online retail marketplace, they operate in a highly competitive industry that requires them to grow as quickly as possible to remain their positions. As a third-party platform responsible for transaction of goods and services, Amazon and Alibaba's business models can be easily replicated by new entrants in the sector, meaning there's a new breed of competition emerges at a rapid rate. Without continuous efforts in R&D program or development in technology, this can pose danger to the company's market stance for not being able to meet the needs of that of consumers.

Government Regulations. Amazon has hired half a million employees in 2021, a 50% increase from 2020 which pushes its workforce to 1.2 million globally [27]. However, a 2019 report from the Brookings Institution indicates that low-wage workers made up 44 percent of the American labor force. Marshall Van Alstyne, a business professor at Boston University argues that the Amazon's high employee turnover will likely lead to increased utilization of automation to address labor instability in the future [27]. Furthermore, to allow robots to ship and pack goods, products need to be stored inside the company's warehouse, resulting in Amazon's rapid building of warehouses. The increasing agitating voice to reform Section 230, which is the provision of the Communications Decency Act that "shields platform companies from liability for harmful contents on platforms", can bring in problems for Amazon for liability of harmful products sold on its platform as the increasing in-house products stored will lead Amazon impossible to argue that it is "simply a third-party platform" but not the seller [27]. Moreover, since Amazon's core business includes cloud computing (AWS), regulations that put strict standards on monitoring the storage and use of data can affect the company's revenue. Alibaba also faces regulations of Chinese government after the ride-hailing service, DiDi

Global's, has been ordered to “stop registering new users as the regulators examine user data privacy issues” [28]. The arise of Alibaba generates jobs, but at the same time causes job loss for traditional brick-and-mortar stores. Many of the physical retail stores closed in China due to high popularity of this online shopping platform. Additionally, most of Alibaba’s investors are US based, which may be another reason Chinese government might take actions against the monopolistic e-commerce giant.

4. Conclusions

E-commerce is a new industry emerges from the rapid growth of technology development over the last two decades. It is a result of the retail revolution and provides people with opportunities to shop online and logistic efficiency. In this paper, the SWOT analysis is used to evaluate both companies by analyzing differences and similarities of their business models. It reveals that there are many opportunities for both companies in the growing advent of global businesses. While Amazon displays more presence on the global retail market with its huge customer based worldwide, Alibaba has the potential of catching up by increasing its stance in the international marketplace given its notable brand and large number of investors abroad. The SWOT framework also shows that compared to Amazon, Alibaba’s large numbers of sellers on its online retail platform pose risk to the quality of the products, which has remained a concern for the company over years. The intense competition in the e-commerce industry requires both companies to develop and refine their technology manifold at a rapid speed, thus investment in R&D programs, e.g., Amazon’s AWS, is a necessary cost that supports the rapid growth of the company businesses. Meanwhile, external factors such as government regulatory policy which sets high standards on the storage and use of data may hinder Amazon and Alibaba’s growth in cloud computing and decrease their revenue. To better accommodate to the current market and explore opportunities, the opening of brick-and-mortar stores can be another way of integrating e-commerce data into improving real-life customer experiences.

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