Alibaba vs Amazon: How do the E-commerce Giants Compare?

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Introduction

Alibaba Holding Group Limited (‘Alibaba’) and Amazon.com Incorporated (‘Amazon’) are two of the largest e-commerce heavyweights in the world. Both firms dominate the market in their respective home countries; Alibaba in China and Amazon in the United States, and were founded in 1999 and 1994 respectively.

Behind the two companies are two individual powerhouses; Amazon CEO and Founder Jeff Bezos, and Alibaba Chairman and Founder Jack Ma.

The two companies, comparable in their meteoric rises to the top of the industry, their sheer power and their game-changing operations, are crucially different in certain aspects.

This research paper will compare the two companies in the context of an ever-changing market.

The Basics

**Alibaba**

Established in 1999 by Jack Ma Yun and his 18 associates from Ma's apartment in Hangzhou, China, Alibaba’s phenomenal path to success was founded on Ma's visionary beliefs and practices. Within the company from the outset, there was a shared belief in the power of the internet to revolutionise the corporate world and transform the face of the market.

Ma and the team saw great potential for innovative small businesses to harness that power and gain leverage on larger companies which were not evolving as quickly. Thus, Alibaba was formed as an online platform through which smaller businesses, such as Chinese manufacturers, could locate interested customers overseas and expand their operations.

**Some data:**

- Established in 1999
- Headquartered in Hangzhou, China
- Revenue for the 2017 fiscal year was CN¥158 billion (approximately AUD$30.54 billion)
- Net income for the 2017 fiscal year was CN¥41 billion (approximately AUD$7.95 billion)
- 50,092 employees around the world.
• Offices in Australia, China, France, Germany, Hong Kong, India, Italy, South Korea, Taiwan, Turkey, Russia, Singapore, the United Arab Emirates, the United Kingdom and the United States.

Amazon

Whilst Ma’s vision for Alibaba as a diversified e-commerce platform was visible enough in the business’ early stages, Jeff Bezos’ Seattle-based Amazon began in 1994 as an online bookstore. Founding his company 5 years before Alibaba, Bezos was also perceptive of the internet as a potential business phenomenon. Having established its online presence, Amazon promptly diversified its products to expand from a bookstore to a vast online marketplace.

The company is credited for popularising the concept of online shopping, and describes itself as ‘customer-obsessed’.

Some data:

• Established in 1994

• Headquartered in Seattle, Washington (USA)

• Revenue for the 2016 fiscal year was US$135.98 billion

• Net income for the 2016 fiscal year was US$2.37 billion

• 351,000 employees around the world

• Offices in Australia, Belgium, Brazil, China, Costa Rica, Egypt, Finland, France, Germany, Hong Kong, India, Israel, Ireland, Japan, Luxembourg, Mexico, Morocco, the Netherlands, New Zealand, Poland, Singapore, Slovakia, South Korea, Spain, Taiwan, Turkey and Romania.

Differences

• A crucial difference between Alibaba and Amazon’s approach to business can be found here; whilst Alibaba was focused on making business easier for sellers and manufacturers, Amazon’s operations were highly consumer-centric.

• Amazon has a more extensive global spread in terms of operating offices

• Amazon has seven times the number of employees Alibaba has.

• Amazon was established 5 years earlier than Alibaba
• Whilst Amazon is larger and worth more, its profit as a percentage of revenue is much lower than Alibaba’s.

History

Alibaba

Jack Ma serves as Alibaba’s executive chairman and former CEO. The company started with 18 employees and grew rapidly in its first five years, securing millions of dollars in domestic and American sponsorship money. In 2005, Alibaba partnered with Yahoo, and took over Yahoo’s operations in China.

Throughout this decade, Alibaba opened several different technological platforms, including Taobao Mall, a domestic marketplace, and Alimama, an online marketing service. In 2007, the company completed its IPO in the HKSE, becoming publicly-traded in Hong Kong. 7 years later, it became publicly traded on the NYSE, and became the largest IPO to have ever been opened in the NYSE.

Amazon

Jeff Bezos serves as Amazon’s CEO. What started as an online bookstore garnered high demand and quickly diversified into an online mall, selling an array of items including DVDs, clothing and electronics. From the start, Bezos was efficient and demanding, going so far as to trademark the domain name, ‘relentless.com’. He instils in his employees a ‘regret minimisation framework’ mindset.

In 1997, Amazon completed its IPO and became the first internet company to secure 1 million users. During the following year, it went about acquiring companies in the United Kingdom and Germany.

In 2001, the company reported its first net profit. Whilst Alibaba quickly expanded into several different consumer-to-consumer, consumer-to-business and business-to-business operations, Amazon instead focused on diversifying its retail product base in its early years.

Services

Alibaba

The driving force behind Alibaba is its highly diversified service base. Ma’s empire was built upon innovation, and the company constantly ensures the diversification of their revenue streams to prevent over-dependence on its core e-commerce services. Nonetheless, 87% of Alibaba’s revenue
stream still derives from the traditional e-commerce platforms. Figure 1 illustrates Alibaba’s unique position in offering varied services.

![Figure 1](image-url)

*Figure 1 Alibaba combines the functions of many different companies, including amazon.com and Amazon’s cloud computing Amazon Web Services (AWS). Source: Quartz Media*

**E-Commerce**

- **Alibaba.com**
  - The original e-commerce platform launched in 1999, this business-to-business platform connects foreign businesses and investors with Chinese manufacturers.

- **TaoBao**
  - Launched in 2003, TaoBao is a consumer-to-consumer Ebay-like marketplace, the site has enjoyed high demand.
  - TaoBao was given its own domain, Tmall.com, a business-to-consumer site on which Western brands began establishing themselves.

- **Aliexpress**
A business-to-consumer platform aimed at connecting small businesses with overseas customers and focuses on small quantity transactions.

Social Media

- Laiwang
  - A social media and messaging app, Laiwang was set up to counter WeChat, a widely used messaging app in China operated by Alibaba rival and internet giant, Tencent. Alibaba has stopped using WeChat.

- Dingtalk
  - A social media and messaging app targeted towards businesses

- Weibo
  - Alibaba has a significant stake in the popular microblogging site.

Cloud Computing

- Aliyun (Alibaba Cloud)
  - Alibaba cloud computing service which competes with Amazon Web Services.
  - Holds the 4th largest market share (2.6%) in cloud computing industry.

Other

- Alipay
  - Electronic payment system

- Alimama
  - Alimama was conceptualised as an ad exchange platform.

- Alibaba Music Group
  - Various other subsidiaries and services.
Amazon

Whilst Alibaba's focus was on improving the e-commerce experience for businesses and diversifying its services, Amazon focused on the consumer experience and improving the sophistication of its base e-commerce platforms. Amazon Web Services (AWS) is another important revenue source and significant service. Amazon's approach to providing its services can be captured in a quote from CEO Bezos; 'Our customers are loyal to us right up until the second somebody offers them a better service'.

E-Commerce

- Amazon
  - The original e-commerce platform launched in 1994; the site is both business-to-consumer and consumer-to-consumer.

- Amazon Prime
  - Video services with a focus on customer experience.

Cloud Computing

- Amazon Web Services (AWS)
  - Launched in 2002, this cloud computing service serves businesses and individuals.
  - Has recently been expanding into the Asia Pacific region.
  - Holds the largest market share (30.3%) in the cloud computing industry.
  - Predicted to have an independent revenue of $13 billion in 2017.

Other

- Amazon Wireless
  - Mobile and internet service provider

- Consumer electronics
  - e.g. Kindle reader
  - Amazon has invested research and development teams into this.
Growth

In general, although Amazon has a much larger revenue stream and its shares are viewed as more valuable and risk-free, Alibaba is rapidly growing and refining its core services as well as expanding their other services.

Alibaba

- Alibaba has posted unprecedented growth figures, exceeding market expectations since its NYSE IPO in 2014.
- Projected increase in profit of 48% in 2017.
- Projected to be worth $900 billion by 2020.
- Alibaba has its sceptics; a significant number of short-sellers are betting against the company. Short positions total nearly $23 billion. See Figure 2 for an assessment illustrating the risk of investing in Alibaba shares compared to Amazon shares.
- Despite this, short sellers are losing billions as Alibaba's shares have been surging, with a 10% increase in August 2017 alone.
- Many short sellers are betting against Amazon as a proxy for betting against China's strong economic growth.
- Although profitable and growing, Alibaba's share price remains well below Amazon's. Mean target share price is $197.46.
- Hiring freeze and fine violations in 2015 temporarily caused minor stunts in growth.
- Alibaba may be better protected than Amazon against consumer sentiment and unfavourable market swings due to highly diverse services.
- Has no sell rating from analysts.
- Promising prospects for continued long-term growth due to strong e-commerce and cloud computing services.
- More profitable business model than Amazon

Amazon
- Consistently valued higher than Alibaba in terms of revenue ($135.99 billion compared to Alibaba’s $22.99 billion), but Amazon’s growth rate falls behind Alibaba’s (23.16% and 48.9% respectively)

- Regarding profits, Amazon is much less profitable with a profit margin of 0.6 – 1.0% compared with Alibaba’s 29% (these respective percentages have roughly similar raw figures).

- Mean target share price is $1150.46

- Although Amazon share prices have gained less than Alibaba’s over the past 12 months (26.2% compared with 75.18% gains respectively), overall, Amazon’s stocks are trading at a much higher value than Alibaba’s, so high percentage gains are therefore easier for Alibaba to achieve.

- Shares are perceived as being less risky than Alibaba’s (see Figure 2), but some reports have suggested that there may be a danger in over-valuing AMZN stocks.

- Short positions estimated at $5 billion, much lower than Alibaba’s.

- Has one sell rating from analysts.

- Continues to experience steady growth.

Figure 2 NASDAQ Risk Assessment showing the relative risk of investing in Amazon ‘AMZN’ and Alibaba ‘BABA’ shares. Source: NASDAQ
Significance

Although the companies are arguably the two most significant in their industry, Amazon and Alibaba still face tough competition domestically and internationally.

In keeping with the technological revolution of retail, both companies are steadily edging out their brick-and-mortar competitors. Not to be outdone by Alibaba's bright growth future, Amazon favoured is by many to be the first company ever to boast a capital of US$1 trillion, ahead of techno-giants Apple and Google. Amazon, with its relatively hybrid business approach and multifaceted enterprises, is poised to capitalise on the weaknesses of competitors like Apple. Although larger by market capitalisation, Apple and other companies are highly specialist in what they provide.

Additionally, some Amazon and Alibaba subsidiaries, such as both of their cloud computing services, are amongst the largest market share holders globally.

Alibaba

- Faces domestic competition from web services company Tencent, particularly
- Strong momentum for Chinese Internet stocks.
- Alibaba’s profitability is helped by its location; China is the world’s largest internet market at twice the size of its US counterpart.

Amazon

- Reported to be influencing inflation on a macroeconomic level.
- Amazon is worth double its largest brick and mortar competitor, Walmart.
- Competes with Apple and Google in terms of size.
- Jeff Bezos was awarded ‘Time Person of the Year’ in 1999, just 5 years after Amazon started, for popularising the concept of online shopping and facilitating the gradual consumer migration from traditional brick and mortar stores to online retail.
- Accounts for 43% of all US online retail sales, and was the most popular online store in the US in 2016.
Innovation

Alibaba

- The concept of an Electronic World Trade Platform (eWTP) envisioned by Jack Ma is included in the official communiqué of the G20 summit and gains support from the World Trade Organization Director.

- Staged a one-off drone delivery trial in 2015.

Amazon

- Recently, Amazon has been establishing brick and mortar bookstores in locations such as Seattle, San Diego and Chicago. It has recently opened its 7th brick and mortar bookstore in New York City, with 6 more stores set to open in 2017. Whilst it may seem counterintuitive, Amazon's foray into the brick-and-mortar sector of retail is innovative in that it is highly unusual.

- Established Lab126, which is an innovations, research and development centre for technology at Amazon.

- Developed the Kindle.

- Currently working on Amazon Echo, which will rival Google Home; connects to Amazon's Alexa (an intelligent personal assistant).

- Innovates consumer electronics.

- Drone delivery trials aimed to improve shipping services to customers.

- Trialling Amazon Go, a brick and mortar store in Seattle open only to Amazon employees for now. The store allows consumers to take items off the shelf and walk out without paying for them, with the costs deducted from their accounts automatically, in a ‘grab and go’ system.
Conclusions

Considering the promising positions of both companies, it is reasonable to conclude that both Alibaba and Amazon will continue to dominate the market. Their secondary subsidiaries, in addition to their core e-commerce services, will also continue to become more sophisticated and significant.

Although currently growing at a faster rate than Amazon, Alibaba's future is still viewed with scepticism by some, and it is uncertain whether the Chinese behemoth will overtake Amazon in the most important aspects. What is assured is that Alibaba and Amazon will continue to explore possibilities and push technological boundaries, transforming the industry with the visionary and creative spirit in which they were both founded.
Thanks for reading

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