

# Why Chinese e-commerce giant Alibaba stumbled with its US shopping site

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Alibaba Group Holding Ltd., the giant online retailer in China, hoped to replicate its success with a U.S. online shopping site and, thus, take a crack at Amazon.com Inc. and others.

But after only a year in business, Alibaba last month agreed to sell the U.S. operation, 11 Main.com.

11 Main was a small piece of Alibaba, which had \$12.3 billion in revenue in its fiscal year ended March 31, but the setback ran counter to the remarkable growth that Alibaba has enjoyed.

The company last year also had the biggest initial public stock offering in U.S. history, raising \$25 billion, and Alibaba's total market value today is \$200 billion.

Christopher Tang has researched Alibaba's U.S. online retail effort. He's a UCLA distinguished professor and the Edward W. Carter chair in business administration at the school's Anderson School of Management.

Tang, 57, talked about how Alibaba fell short in the U.S. market and what the episode says about American shoppers. Here's an excerpt:

Q: What exactly is 11 Main?

A: It's an online retail site for goods and crafts made by American businesses. 11 Main is an online portal, it does not own inventory itself

and does not manage its merchants' inventories. It provides an online platform for merchants to sell certain products in fashion, home, tech, toys and jewelry, among others.

Q: That's similar to how Alibaba's Tmall online retailer works in China, right?

A: Right.

Q: So what went wrong?

A: They misjudged the market completely, and there was no traction. They didn't understand American consumers' expectations and that the market is highly competitive. And they didn't understand how logistics support is crucial.

Q: Let's take those one at a time. What do you mean by American consumers' expectations?

A: American consumers by and large are e-savvy and, thanks to Amazon and eBay, they are used to a mostly good experience in terms of e-commerce. They expect many products to be available at a competitive price, they expect two-day delivery, they know they can trust the order and return the products usually without any hassle.

Q: But 11 Main fell short in those areas?

A: Yes, and that's where the logistics support comes in. If you buy something at Amazon, the product is either shipped by Amazon or by the merchant through Amazon. Alibaba wasn't doing that. After a sale at 11 Main, the transaction was between the consumer and merchant. Alibaba was more like an agent. That is the business model they run in China.

Q: So what was wrong with having the consumer deal directly with the merchant?

A: When the merchant does the shipping alone, they don't have the economies of scale of an Amazon, so the shipping cost often is higher than Amazon, much higher. The merchant doesn't have the volume to offer discounts. (A number of 11 Main's products do include free shipping.)

Q: In your research, you said 11 Main had two other problems: a lack of brand awareness and consumer ratings.

A: Many of its brands are not well-known brands. So why would American consumers go to this website to buy a no-name brand at a higher price?

Plus, when you're starting out like 11 Main, there's no history of customer reviews about the products or service. As a result, the customers have no way of knowing the quality or reputation of the merchant.

Q: How could a company as successful as Alibaba stumble like this?

A: They have cash to burn and so they can take risks. They learned from this experience and they're going to change the strategy. Now they're going to focus on helping American merchants sell in China. Chinese consumers like American products because they have less concern about the products' quality and safety.

Q: So does 11 Main's struggle mean no company will ever be able to compete with Amazon or eBay or the other online retail giants?

A: Remember how Sears used to sell everything under the sun, including

insurance and financial services? Everyone thought, "How do you compete with them?"

Then a Home Depot came in and focused on home-repair solutions. Then there was Victoria's Secret and lingerie, and Dell and computers. It's a matter of having a niche if possible.

If you want to compete with Amazon or eBay, a newcomer should have a special-products strategy. If a retailer wants to have all the categories at once, that's likely not possible.

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