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How Do Alibaba Penetrate into and Benefit from the Internet Finance Sector Successfully? An Ecosystem Perspective

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ABSTRACT
The internet finance (or online financial) industry in China has boomed in recent years. Amongst the players, Internet attackers are quoted as key facilitators, fostering innovation and possessing a uniquely competitive landscape. To explore the methods through which such companies penetrate and benefit from the online financial sector, this study analyzes the evolutionary path of Alibaba’s ecosystem during 2013 and 2015, discovering how Alibaba positions and shapes interactions within the ecosystem. Based on our findings, Alibaba first expanded to the investment and financial management sectors with regard to the entry strategy. Second, owing to its lack of experience in the financial landscape, Alibaba applied the evolutionary strategy and placed a higher focus on cooperating with Internet-based companies. Finally, to ensure sustainable and mutually beneficial relationships amongst most ecosystem players, Ant Financial became a keystone player, enabling Alibaba to serve as the physical dominator.

Keywords: Online financial / internet finance industry, Alibaba Group, ecosystem analysis.

CURRENT UNDERSTANDING OF THE ONLINE FINANCIAL INDUSTRY
The Paradigm Shift of the Financial Service Sector in the Internet+ Era
Since the 1990s, the Internet has caused both evolutionary and revolutionary changes in the practices and services of existing industries, leading to paradigm shifts. Moreover, owing to the fundamental changes in both business and living environments caused by information and communication technology (ICT), the Internet+ era has been a major focus of both managers and academics in recent years. The influence of disruptive innovations on the structuring, provisioning, and consumption of services has become a vital concern (World Economic Forum [WEF], 2015).

This viewpoint is particularly evident in the financial services sector, as finance technology (FinTech) has had disruptive impacts on current practices. To help financial firms systematically capture the aforementioned patterns, the WEF initiated a global research project in 2015, which proposed the first consolidated taxonomy of disruptive innovation in financial services (WEF, 2015). According to the WEF, although the design, delivery, and providers of financial services is rapidly changing, the core needs that those services fulfill remain the same. Thus, the six core functions that comprised financial services remain relevant and are highlighted and identified in the WEF framework: payments, market provisioning, investment management, insurance, deposit and lending, and capital raising. Additionally, 11 clusters of innovations exerting pressure on traditional business models are identified: emerging payment rails, cashless initiatives, smarter and faster machines, new market platforms, process externalization, empowered investors, insurance disaggregation, connected insurance, alternative lending, shifting customer preferences, and crowdfunding (WEF, 2015).

WEF further synthesized six high-level insights on the impact of Internet-enabled innovations in financial services; based on the proposed comments, Internet-enabled, disruptive innovations will continuously reshape the long-term structure of the financial service industry, spotlight platform-based data-driven service models, and push incumbent institutions to employ online competition strategies (i.e., competing with new Internet-based entrants vs. leveraging legacy assets to provide similar services online) (WEF, 2015).

The Growth Potential in China’s Booming FinTech Sector
China is cited as one of the places with the most development in the internet finance (or online financial) sector in recent years, owing to FinTech start-ups’ mushrooming growth. Not surprisingly, at the end of 2015, the market size of China’s online financial sector was more than USD 1.8 trillion (or RMB 12 trillion). According to McKinsey, four key factors are driving the rapid growth of China’s online financial industry: (1) the open, supportive regulatory environment; (2) a highly developed e-commerce (EC) sector; (3) an enormous latent demand for inclusive finance; and (4) the strong profitability of traditional banks underwriting a strong trial-and-effort culture and facilitating aggressive investments in innovative digital services (Ngai et al., 2016).

McKinsey also identifies three typical types of players in China’s online financial industry. The first type is the Internet attackers (or “barbarians from outside”). China has a uniquely competitive landscape that is dominated by a few digital companies that have established comprehensive multilicensed financial ecosystems, which are differentiated by their target customers. Alibaba and Tencent are two typical Internet attackers. Alibaba utilizes its EC business as the foundation of its financial empire (first entering into the payment sectors before expanding into financing and wealth management), with an emphasis on hundreds of millions of individuals and small- and medium-sized enterprises (SMEs). In contrast to Alibaba’s techniques, Tencent expanded beyond the powerful social nature of the WeChat platform to build a consumer-oriented financial network that taps into its huge
user base (Ngai et al., 2016).

The second type of player is traditional financial institutions. These players are usually considered industrial followers because of their strict regulations and relatively conservative mindsets; however, they are still accelerating their push into the emerging online financial sector. Ping An Insurance Group, China Construction Bank, and the Industrial and Commercial Bank of China, which are all building their own ecosystems, represent traditional financial institutions (Ngai et al., 2016).

The final type of player is nonfinancial companies, a relatively small group that lacks experience in both the finance and Internet sectors. Retail companies such as Gome and Suning and real estate companies such as the Wanda Group are now marrying extensive offline resources to design new financial products, which threaten to undermine banks’ control over key business customers (Ngai et al., 2016).

Nevertheless, Internet attackers appear to evoke and initiate the booming of China’s online financial industry, thus creating a payment-dominated industry and shaping a differentiated development pattern to that of other leading nations. The relatives of a business and corresponding business models are, therefore, worthy of further investigation.

The Ecosystem Perspective Provides Insight for Understanding the Evolutionary Path

Business ecosystems are a wonderland for companies in the EC era, sustaining competition and innovation amongst enterprises (Fan and Liu, 2015). Tracing the origin and theoretical concepts of business ecosystems, Moore (1993) is possibly one of the first authors to have highlighted their importance as he argued the new ecology of competition in the early 1990s. Under Moore’s concept, the evolutionary circle of a business ecosystem may include four stages: birth, expansion, leadership, and self-renewal. As businesses enter the self-renewal stage, innovation increases to ensure the sustainability of the business ecosystem.

Concerning the structural characteristics of a business ecosystem, Iansiti and Levin (2004) argue that interrelated enterprises occupy different ecological niches. They stated that keystone, physical and value dominators, and niche players are the major types of players and strategies. In particular, keystone firms play a crucial role in business ecosystems, specifically in creating value. Keystones aim to improve the overall health of the ecosystem by providing a stable and predictable set of common assets that other firms use to build their own offering. Keystones ensure their own survival and prosperity by continually trying to improve the entire ecosystem. In other words, they promote the health of others for strategic rather than altruistic reasons. Consequently, an effective keystone strategy must fulfill two criteria: (1) create value within the ecosystem, and (2) share value with other participants in the ecosystem.

Dominators in a business ecosystem wield their clout through more traditional means. Physical dominators aim to integrate vertically or horizontally to directly own and manage a large portion of a network; they generally control much of an ecosystem and are responsible for creating the value they capture. By contrast, a value dominator has little direct control over its ecosystem and creates little value for the ecosystem, but extracts as much value as it can.

Most players in business ecosystems follow niche strategies and are regarded as niche players. Niche players devote themselves to developing specialized capabilities that differentiate them from other firms in the network, and focus all their energies on enhancing their narrow domains of expertise.

Furthermore, Iansiti and Levin (2004) suggest that the choice of ecosystem strategy is governed primarily by current company type and ambitious company type. If a firm faces rapid and constant change and usually focuses on a narrowly but clearly defined business sector, a niche strategy may be most appropriate; if a firm is at the center of a complex network of asset-sharing relationships, the keystone strategy may be most effective; whereas if a firm relies on a complex network of external assets and operates in a matured industry, the physical dominator strategy may be the optimal choice.

Current Gaps and Research Focus

As mentioned, although current reports and studies have analyzed the potential development of the online financial service sector, as well as illustrated how specific innovative or successful firms are formed and operated, and have provided guidelines for depicting the future profile of the online financial sector, few have considered how leading Internet attackers have successfully established comprehensive multilicensed financial ecosystems or how they build uniquely competitive landscapes. Thus, clues and information are limited for conducting benchmark studies and analyzing evolutionary paths.

Therefore, to help bridge the gap between practice and theory, this study analyzes how the Alibaba group, the most representative player in China’s FinTech industry, formed and expanded its financial service ecosystem during 2013–2015; namely, how it interacted with firms joining its financial ecosystem, as well as how it penetrated and benefited from the online financial sector.

RESEARCH METHOD AND DESIGN
Research Method and Case Selection
Because the development of the online financial service sector is still in its early stage, the qualitative research method is considered suitable for capturing the insight and implicit signals of the research subject. Therefore, case-based analysis is our key research method.

Alibaba is selected as our research target. The Alibaba group was formed in 1999 in the initial field (i.e., B2B) and later expanded to the EC areas of B2C and C2C. In the 2010s, the group gradually constructed its business ecosystem in information, logistics, infrastructure, and finance. In particular, Alipay is regarded as the key application fostering Alibaba’s business ecosystem and service innovations.

Alibaba is a representative case of China’s online financial ecosystem, because of the following reasons: (1) Alibaba began to form its EC ecosystem in 1999 and is cited as the most representative EC giant in China (Fan and Liu, 2015); (2) Alibaba is quoted as the leading and most typical Internet attacker in China’s online financial service sector, leveraging its payment services for its business expansion (Ngai et al., 2016); and (3) Alibaba has been applied as the most representative multisided platform in analyses of the Chinese e-business ecosystem and its evolutionary path (Huang et al., 2009; Tan et al., 2015).

Consequently, this study focused on the evolutionary period of the Alibaba and Ant Financial business ecosystem and considered niche firms secondarily. Additionally, a blended analysis strategy is employed to ensure validity; time horizon-based pattern matching analysis is applied when using the case method.

Data Collection
The authors obtain relevant data from the literature as well as online news. The link between two firms within Alibaba’s online financial ecosystem in a specific year is recorded and the data is then converted into a table including the cooperative news collected online. The data is then cross checked to ensure that each relation link is valid and current.

Because China officially initiated its online financial service sector in 2013, and the Ant Financial group was formed in 2014, this study focuses on analyzing the evolutionary paths between 2013 and 2015. In other words, only the birth and expansion stages of this ecosystem are analyzed in this study, following Moore (1993).

Analytical Framework
To provide a comparable outcome, WEF’s six core functions of financial services are adopted in the analytical framework of this study; all the members of this ecosystem are categorized as one of the six functions (i.e., the corresponding types of firms and financial service category they belong to).

Moreover, Alibaba’s networking strategies and subsequent connections to its Internet financial ecosystem are also specified. Therefore, the strength of the relationships (or links) between any two companies in the ecosystem (i.e., project-based cooperation, investments, and mergers and acquisitions) are specifically illustrated.

Finally, to determine how Alibaba and its partners perform in the ecosystem, this study analyzes the possible role of each member by applying Iansiti and Levin’s (2004) framework.

ANALYSIS AND PRELIMINARY FINDINGS
Analytical Outcomes
Figures 1, 2 and 3 depict the profile of Alibaba’s online financial ecosystem at the end of 2013, 2014 and 2015, respectively. In 2013, Alibaba had limited assets and capabilities in all the financial service sectors (except for payment). To establish its financial ecosystem based on its core competence (i.e., EC, SME users, and payment), Ali mainly invited suppliers, service providers, and capital investors during this period. Thus, as Figure 1 depicts, connections amongst players were relatively simple, whereas the differentiation amongst players remained limited. Based on an in-depth analysis of firm structure, 29 participants joined the ecosystem in 2013. Under this ecosystem, only 6 firms were self-owned and initiated by the Alibaba group, whereas 16 players belonged to Internet-based firms. Regarding the business scope of the ecosystem, Alibaba entered the online financial service sector with its online payment platform, Alipay, in the 2000s and soon expanded its services to include investment management and insurance services, targeting then-current Alibaba customers. Additionally, they trialed deposit and lending services through leveraging what outside (physical and leading) firms could provide. During this stage, the relationships between players in this ecosystem were still weak and simple; both parties were trying to leverage each other to create niche markets.

In 2014, Alibaba replaced Ali Finance with the Ant Financial Group to serve as its financial service and product offering platform, in response to changing regulations in China in the upcoming year. Based on the core of third party payment, Ant Financial Group emphasized serving as the payment gateway for the whole Alibaba ecosystem, and tried to gather the behavioral information and patterns of all participants and customers in the meantime. Moreover, as seen in Figure 2, in addition to helping
Ant Financial Group building its business relationships with firms belonging to Ali Finance’s ecosystem, Alibaba continues its expansion of its service scope and variety particularly in domains of investment management service and deposits and lending services. Therefore, not surprisingly, a variety of derived innovative financial services based on AliPay were launched in 2014. Another issue that worth paying attention to is that a greater number trial on building stronger relationships between Alibaba and its partners through M&A could be found in 2014.

In 2015, thanks to the booming FinTech within Alibaba, Ali and Ant Financial focused on strengthening partnerships with other companies and building possible links amongst internal services. As seen in Figure 3, owing to more strategic cooperation, as well as M&A, Alibaba’s financial ecosystem now consisted of 81 participants, and was more robust and complete. Specifically, at the end of 2015, the number of firms had grown by 279% in comparison with 2013. Under this ecosystem, 18 firms were self-owned and initiated by the Alibaba group, and another 17 firms joined because of either Alibaba’s or Ant Financial’s M&A strategy. Moreover, Internet-based firms are still relatively critical to this ecosystem as 53 of 81 participants are Internet-based firms. Finally, although still in its expansion stage, the Alibaba’s online financial ecosystem expanded into the six core function...
areas to build a more complete and robust service landscape. Furthermore and more critically, this current expansion of the Alibaba group and Ant Financial is implemented with supplementary perspective. Therefore, the Alibaba group and Ant Financial have built their own platform for ensuring the continuous growth and sustainability of the ecosystem through fulfilling the unmet needs of Alibaba’s customers, thus growing the membership of this ecosystem more proactively.

**Conclusions and Implications**

**Key findings and conclusions**

The Internet has engendered both evolutionary and revolutionary changes in the services and interactions of business firms for the past several years. Namely, the Internet+ era has been associated with fundamental ICT–driven changes in both business and living environments and constant disruptive innovations, including the online financial industry (WEF, 2015). Because of the mushrooming of FinTech start-ups and the major contribution of Internet attackers (such as Alibaba and Tencent), China, with its unique development pattern and competitive landscape, is considered one of the countries with the highest expansion in this industry in recent years.

However, although numerous studies have illustrated single innovative or successful cases and have provided guidelines for depicting the profile of the future industry, few have considered the strategies by which leading Internet attackers have successfully established comprehensive multi-licensed financial ecosystems successfully or how they have built uniquely competitive landscapes, thus providing limited clues and information for conducting benchmark studies and analyzing their evolutionary paths. Recognizing that Internet attackers in China have been changing the game rules or service landscape, exploring the penetration of the online financial sector by these companies and the associated benefits is crucial. Therefore, to help bridge the possible gap between practice and theory, this paper analyzes the evolutionary path of Alibaba’s ecosystem during 2013 and 2015, namely, how Alibaba influences interactions within the ecosystem, by applying WEF’s (2015) framework and Iansiti and Levin’s (2004) perspective.

The findings of this study are as follows. First, Alibaba started its expansion in the investment and financial management sectors, followed by insurance and crowdfunding. Second, owing to its “barbarian” nature and lack of financial landscape coverage, Alibaba applied the evolutionary strategy when forming its ecosystem; Alibaba placed higher focus on cooperating with Internet-based companies, thus shaping an entirely different strategy than that of traditional financial institutions that were penetrating the FinTech sector. Third, to ensure sustainability and mutuality amongst most ecosystem players, Ant Financial adopted the keystone role, allowing Alibaba to serve as the physical dominator.

**Contributions and implications**

Based on the above findings, both theoretical contributions and practical implications can be drawn from this study. First of all, with regard to the theoretical aspect, as argued in current reports as well as in this study, Internet+ is deeply believed to be a new force to not only increase the effectiveness of current industrial practices but also reshape the game rules and service scope of industries, thus varying practices and landscapes. Therefore, the possible impacts and evolutions echo den Hertog’s (2000)
framework for depicting the nature of service innovation. Moreover, the developmental path and strategy of Alibaba’s online financial service ecosystem reflects a customer-oriented, niche-based, evolutionary strategy, mirroring how Alibaba succeeded in its EC landscape, which is consistent with the business ecosystem discussed.

In addition, although current studies on business ecosystem, such as Moore (1993) and Iansiti and Levien (2004), have demonstrated how to depict the roles and goals of firms participating in the system, less is discussed on analytical techniques depicting the dynamics and relationships amongst the business ecosystem. To help bridge this gap, this study tries to capture the dynamic changes by applying analytical techniques from the industrial / value net analysis domain. More specifically, by adding the cross-year comparison viewpoint and specifying the level of strengths of each link, this study is believed work well in visualizing the evolutionary path and its robustness of this ecosystem, thus offering new analytical perspectives for future research on business ecosystem.

With regard to the practical aspect, most of the hypotheses of WEF regarding the development of the online financial service sector are reflected in our analysis. More specifically, thanks to Alipay’s contribution and business model, a typical platform-based model and ecosystem is then built; moreover, as Ant Financial and Alibaba adopt a complementary but cooperative position in this ecosystem (i.e., Ant Financial is a keystone business, whereas Alibaba employs the physical dominator strategy), both physical and traditional financial service firms and Internet-based firms are attracted to and proactively join this niche-based ecosystem, to leverage Alibaba for their market expansion. Such strategic approaches differ from how traditional financial institutions operate and innovate. Thus, based on the preceding discussion, this study has three practical implications: (1) online payment (or virtual money or points) service providers may be either platforms or keystones in fostering financial services; (2) the omnichannel (or O2O) strategy may be the key for differentiating the services and propositioning the value of focal players in the ecosystem; and (3) the findings may be applied to expand the landscape of current EC ecosystems or reshape other physically dominant service sectors.

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