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Analysis of the Causes of Strategic Alliances: Based on the Case Study of the Strategic Alliance between Alibaba and Suning

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Abstract: There is a heated controversy over the causes of strategic alliances among the academic circle these days. Among them, the transaction cost theory and resource-based theory are the two most important theoretical foundations to explain the formation of strategic alliances. This paper is based on the transaction cost theory and resource-based theory and combined with the actual situation of Alibaba and Suning to analyze the reasons of strategic alliances, which can provide reference for the development of E-commerce industry and home appliance retail chain.
Keywords: Strategic alliance; Transaction cost theory; Resource-based theory.

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1. INTRODUCTION

The concept of strategic alliance was originally proposed by Jane Hopland, president of American Digital Equipment Corporation, and Roger Nigel, management scientist. They believe that strategic alliance refers to two or more companies with equal strength, in order to achieve the shared strategic objectives of market and resources, through various agreements and contracts to achieve complementary and risk-sharing cooperation model (Xiaolan Zhang, 2003).

At present, there are still many controversies in the theoretical circles about the formation of strategic alliances. Among them, the transaction cost theory holds that strategic alliance is another resource allocation method between market and enterprise, and it is an organizational form that minimizes the sum of production cost and transaction cost (Yao Chen, 2014). Resource-based theory believes that enterprises can more effectively allocate and utilize their core resources through strategic alliances. Alliance partners can share and complement their core resources, and then develop new core resources on this basis (Fei Xu and Limin Xu, 2003). Through the discussion of transaction cost theory and resource-based theory, combined with the actual situation of Alibaba and Suning, this paper analyzes the reasons for the strategic alliance between the two, hoping to provide reference for the development of e-commerce industry and home appliance chain retail industry.

2. THEORETICAL OVERVIEW

2.1 Transaction cost theory

The transaction cost theory was first proposed by the economist Ronald Koss in 1937. According to this theory, enterprises and markets can be replaced by each other as a resource allocation mechanism. Factors such as bounded rationality, uncertainty, and opportunism make the transaction costs of the market high. In order to reduce transaction costs, the company has replaced the market as a new form of transaction. On the one hand, transaction costs spurred the company's production, and on the other hand, the company adopted different organizational forms to reduce transaction costs. (Jiaming Huang and Weidong Fang, 2000)

Since then, Williamson and other economists have continued to expand the theory of transaction costs. Williamson (1988) emphasizes that if opportunism poses a greater threat, it needs to control partner companies. The basic conflict of the alliance is that both enterprises need to control and cooperate. The cost of achieving control or cooperation is inefficient if it is higher than the benefits. Yao Chen (2014) believes that the uncertainty of the transaction process will bring certain transaction costs, and the post-alliance organization has higher stability, which can offset the uncertainty in the external market environment of the enterprise, thus reducing the transaction costs. From the perspective of the particularity of assets, the higher the particularity of investment between the two sides, the more stable and economic the contractual relationship between the two parties. From the perspective of transaction frequency, the enterprises located upstream and downstream of the industrial chain, the higher the number of transactions, the trade through the alliance the more stable the relationship is, so the transaction costs are saved.

2.2 Resource foundation theory

The theory of resource-based theory was first proposed by Weinerfeld in 1984. According to the theory, a company is a collection of resources, and different companies have different resources. The company's core resources enable the company to achieve sustainable advantages in the competition. Because the core resources of enterprises are scarce, difficult to be imitated and incomplete liquidity, it is impossible to effectively allocate and utilize these core resources through market transactions. Enterprises can more effectively allocate and utilize their core resources through strategic alliances. Alliance partners can share and complement their core resources, and then develop new core resources on this basis. Therefore, according to the resource-based theory, strategic alliance partners can gain competitive advantage through core resource sharing, complementarity and new resources (Fei Xu and Limin Xu, 2003).

Yu Sun (2007) believes that for material resources, these resources can be directly obtained or redistributed through strategic alliances to solve the problem of resource redundancy. Due to the different needs of different alliance enterprises, it is possible to maximize the use of resources that are temporarily useless to other enterprises and optimize resource allocation. For human resources and organizational resources, alliances can be used to imitate and learn to develop their own resources. Through alliances, imitation can be transferred from outside the enterprise to the inside of the enterprise, which can reduce the cost of imitation and greatly improve the effect. The alliance can enable the two sides of the company to communicate more deeply and transmit information more fully and comprehensively, thereby improving the ability of both parties to imitate their respective resources.

Transaction cost theory and resource-based theory are the two most important theoretical foundations for the formation of strategic alliances. Transaction cost theory analyzes the formation of strategic alliances from the perspective of minimizing the sum of organizational costs and transaction costs. However, as companies grow and develop, the power of strategic alliances is not only to save on transaction costs, but also to increase the competitive position of companies. At this time, the alliance not only means forming an economic organization, but also an important means of competition for business cooperation. Therefore, the authors are more convinced of the resource-based theory that strategic alliances can more effectively configure and use their core resources, and alliance partners can share and complement their core resources. The two sides of the alliance learn from each other and imitate each other's strengths, thereby enhancing their core competitiveness.

3. CASE STUDY OF ALIBABA AND SUNING STRATEGIC ALLIANCE

3.1 Case background

On August 10th, 2015, Alibaba Group and Suning Yunshang Group reached a strategic alliance. The agreement stipulates that Alibaba Group will invest 28.3 billion yuan in Suning Yunshang, accounting for 19.99 percent of the latter's total share capital. At the same time, Suning Yunshang will invest 14 billion yuan in Alibaba Group and hold a 1.09 percent stake in Alibaba. Through strategic alliances, both parties will integrate online and offline channels to provide consumers with better business services (Lewen Wang, 2015).

3.2 From Alibaba's point of view: from online to offline integration

3.2.1Make up for the underline gap and further fuse Online to offline. Alibaba's total commodity transactions in the first quarter of 2015 reached 600.1 billion yuan, a year-on-year increase of 40 percent. Jingdong’s total merchandise transactions in the first quarter of 2015 were only 87.8 billion yuan, but the year-on-year growth rate reached 99 percent. Compared with Jingdong, Alibaba's online business growth rate has gradually declined. In recent years, Alibaba has adopted investment and internal incubation to promote the integration of online and offline business, such as investing in the Meituan, investing in Yintai, and establishing a rookie network. Because Suning has a relatively mature offline sales system, Alibaba's shareholding in Suning can just make up for its offline gap and better achieve online and offline integration.

3.2.2Make up for the shortcomings of Taobao and Tmall appliances after-sales service. If there is quality problem in the products purchased from Taobao, you will need to send it back to the merchant or the manufacturer's outlet for repair. After the two sides reached a strategic alliance, Suning stores became after-sales service outlets, which can make up for the shortcomings of Taobao and Tmall appliances after-sales service. In Taobao.com, if there is quality problem in the products purchased from Tmall, you can look for Suning stores for after-sales maintenance. Suning has the advantages of more than 1,600 stores across the country. For consumers, whether it is online or offline shopping, you can enjoy the after-sales service of Suning.

3.2.3Make up for the shortcomings of its own logistics and make full use of Suning's advantages in logistics. The booming development of e-commerce has driven the development of the logistics industry. However, the efficiency of the logistics system will also affect the development of e-commerce. At present, in the national grid purchase market, Jingdong is in an absolute leading position. Based on the self-built logistics system, Jingdong can provide customers with more time-sensitive and better logistics and transportation services. As a consumer, in the purchase of home appliances and digital products, in order to obtain faster and better logistics experience, more inclined to buy goods in Jingdong Mall. In order to gain a larger market share in the home appliance market, Alibaba urgently needs to upgrade its logistics services. If Alibaba chooses to build a self-built logistics system, the cost is too great. And investing in Suning is equivalent to accepting a self-built logistics team. At present, Suning's logistics system has a storage area of 4.52 million square meters, with 8 national aviation hubs and 49 regional logistics centers. After the two sides reached a strategic alliance, Suning Logistics entered the rookie network. During the Double Eleven period, Suning Logistics completed the distribution of 39 SKU products at Tmall Supermarket and completed the distribution of more than one million items. At the same time, Suning Tesco Tmall flagship store also officially opened the delivery service (Jie Chen, 2015).

3.3 Suning perspective: transition from offline to online

3.3.1Make up for the lack of Internet thinking and accelerate the integration of online and offline business. In recent years, due to the increase in store rents in first- and second-tier cities and the impact of e-commerce, Suning's stores in first- and second-tier cities have been closed down, and the development of offline business has reached a bottleneck. At this time, the transition from offline to online is imminent. However, for Suning, it is more difficult to achieve transformation alone. Since the implementation of the Internet transformation, Suning has been in a difficult situation. In the first half of 2014, Suning’s total operating income was 51.16 billion yuan, down 7.87 percent year-on-year. From the offline to the online, Suning urgently needs to seek new breakthroughs. At this time, Alibaba chose to invest in Suning to speed up the latter's Internet transformation, while filling the shortcomings of the other Internet, online and offline integration, and promote its e-commerce strategy (Jinli Luo, 2015).

3.3.2 Share Alibaba's traffic resources. On August 17, 2015, Suning officially settled in Tmall Mall and opened the Suning Tesco Tmall Flagship Store. The huge traffic brought by Alibaba's 350 million Taobao users and 300 million Alipay users can help Suning gain more users. In the 10 months since its inception, the total transaction volume of Suning Tesco Tmall flagship store has maintained a 200 percent increase. The monthly maximum growth rate is over 800 percent, ranking first in Tmall's brand stores.

4. SUMMARY

Transaction cost theory and resource-based theory are the two most important theoretical foundations for the formation of strategic alliances. The transaction cost theory summarizes the motivations of strategic alliances from the perspective of minimizing the sum of organizational costs and transaction costs. However, with the development of enterprises, the driving force for forming strategic alliances is not only to save transaction costs, but also to enhance the competitive position of enterprises. At this time, the alliance is not only an economic organization, but an important means of competition for business cooperation. Therefore, the authors are more convinced of the resource-based theory that strategic alliances can more effectively configure and use their core resources, and alliance partners can share and complement their core resources. The two sides of the alliance learn from each other to imitate each other's strengths, thereby enhancing their core competitiveness.

In summary, the essence of business is not competition, but cooperation. As the two giants of domestic electric commerce and home appliance chain retailing industry, Alibaba and Suning can hold the advantages of complementary advantages. Alibaba and Suning share their superior resources such as big data, Internet of Things and Alipay financial payments. Suning also seamlessly connected its more than 1,600 offline stores, 5,000 after-sales service outlets, and service stations in the fourth- and fifth-tier cities to Alibaba's powerful online system. The two sides share resources and complement each other. As Yun Ma said that the opportunities for Internet companies in the next 30 years will exist offline, and the hopes of traditional enterprises will be placed on the online. This is also the fundamental reason why Suning and Alibaba came together.

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