

# Strategies for Small OEM Business Success in Alibaba.com: A Case Study

Bei Wang, Mengsiying Li  
Jiangnan University, Wuhan, China

Numerous barriers, including distance, language, culture, scale, and unfamiliar business practices obstruct cross-border trade between SME buyers and sellers. Alibaba's cross-border electronic commerce (e-commerce) platform connects businesses, generating leads and quotations quicker than ever with request for quotation, or RFQ (request for quotation). The commercialization of RFQ market intensifies the competition between suppliers, which requests traditional enterprises to response more quickly and efficiently to improve their business. The purpose of this paper is to provide a case study of small OEM (Original Equipment Manufacturer) company using electronic commerce as part of their business strategy in Alibaba.com, and how to improve its business on the Alibaba.com platform by RFQ. The themes are clearly not unique to one company, but a part of a greater ecosystem that includes cross-border trade not only between SMEs, but also involves a multitude of companies and customers around the world.

*Keywords:* cross-border e-commerce, RFQ, OEM

## Introduction

In Asia, there is a dramatic change fueled by a very rapid increase in Internet penetration, particularly in China. The numbers of Internet users grew from 20 million to 460 million only within a decade. China's rapid growth as a manufacturing center since opening up 30-plus years ago spawned countless small businesses and factories, transforming the country into the world's manufacturing center. With the rapid growth of the Internet and e-commerce, more and more companies do their business online. During the past decade, China's overall trade increased rapidly with e-commerce making an ever-growing contribution. China's total cross-border e-commerce trade, including exports and imports, grew 28.6% in 2015, to US\$776 billion from US\$603 billion in 2014. About 90% of the 2015 volume was in business-to-business (B2B) transactions, the remainder in business-to-consumer (B2C) transactions. With the development of One Belt, One Road, China will be the biggest market because of its population size and the early adoption of e-commerce. Yet, to be the world's largest in cross-border e-commerce requires overseas transactions, markets, and business partners. As China's market grows, so will other markets.

Tremendous growth stories for sure, but small and medium enterprises increasingly found themselves lacking sufficient scale in the trading process on one hand, and lacking the leverage based on a good credit

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Bei Wang, Ph.D., lecturer, Jiangnan University, Wuhan, China.

Mengsiying Li, undergraduate student, Jiangnan University, Wuhan, China.

Correspondence concerning this article should be addressed to Bei Wang, School of Business, Jiangnan University, San Jiao Hu Road, Wuhan 430056, China.

rating to obtain financing to grow their business on the other hand. Besides these challenge, SMEs lacked the capabilities and expertise to manage each stage of the supply chain—sourcing, customs clearance, inspection, taxation, foreign exchange, insurance, trade finance, risk management and so on. A business process solution was needed too. In terms of e-commerce development, websites were just a little more than information display platforms at beginning. Now they are highly sophisticated interfaces that act as a doorway to attract business and service providers. Alibaba.com, one of the best-selling cross-border e-commerce platforms, attracts more attentions of SMEs, especially small OEM business. China's OEM business development level is relatively low, and almost all small OEM businesses are facing with keen competitive. 2016, Alibaba Group began to commercialize the RFQ market, which has reduced the entrance threshold for the RFQ market and intensified market competition. It undoubtedly provides SMEs with good opportunities and great challenges.

The booming cross-border e-commerce environment will undoubtedly provide a wide range of new opportunities for China's small OEM businesses to a much larger market. "Internet + foreign trade" is the new opportunity for all kinds of traditional businesses. In this context, small OEM businesses need to weigh the pros and cons in the RFQ market, gain access to more scalable business processing and change their strategies to better accommodate such changes.

The purpose of this paper is to provide an overview of a case study of a typical small OEM business: TY auto parts Co. Ltd in Shenzhen, China (TY Company for short), which aims to improve its revenue in cross-border e-commerce. As such, the case study is better viewed as inspirational success story than blueprints for strategic business planning.

### **Review of Related Literature**

A large number of research publications consist of surveys of businesses to determine the extent of participation in e-commerce and perceptions of benefits from these activities.

Epstein (2005) believed that senior executives must have a basic understanding of the technologies associated with e-commerce and information technology (IT) in order to communicate the business implications to internal and external partners. But his theory is lack of enforceability and not targeted at a specific area. Pather, Remenyi, and Harpe (2006), through their case study of a foreign trade company in South Africa, created a set of initial indicators for the successful conduct of e-commerce. It mainly includes four aspects: information, marketing, exchange of stakeholders, and transactions, the analysis of these four indicators can determine whether a company has a successful factor. Liu (2012) analyzed opportunities and challenges for foreign trade enterprises, he emphasized that the transformation of foreign trade OEM enterprise is necessary, OEM enterprises should try to establish their own brand, protect independent intellectual property, and expand their business channel, by emphasizing technical input and development of new products.

Alibaba Group, as one of China's e-commerce giant, has always been the focus of many scholars. Li (2015) proposed that the main advantages of developing the international trade customers on Alibaba B2B platform are customer management system innovation, platform integration innovation, and control power innovation, the disadvantage is that there is no effective customer management, lacking of information exchange between enterprises and ignoring network security. Shan (2015) also fully acknowledged Alibaba.com platform's significant role and the huge potential in China's cross border e-commerce field. Ding (2016) mentioned the impact of RFQ market commercialization on suppliers of different sizes, he believed that small and medium-sized enterprises on the RFQ commercial background should set up excellent operation team and

analyze the RFQ market rules, and constantly improve the offer tips and so on. He listed the feasible countermeasures, which are worth learning. But he focused on general small and medium enterprises, without any particular points on OEM enterprises.

### Background

Alibaba.com is dedicated to providing trade export marketing services, in order to obtain overseas orders and promote products, and suppliers can show the advantages of their products to overseas purchaser through the Alibaba.com platform. Alibaba also provides a one-stop shop decoration, product display, marketing, business negotiations, and shop management, such as a wide range of online services and tools. 2013 Alibaba.com set up a multi-lingual market, so it is convenient for small and micro enterprises to find overseas buyers, help them reduce costs and develop foreign trade market efficiently.

RFQ market is a service project of Alibaba.com, the full name is request for quotation. It also known as the buyer commissioned procurement. Through the RFQ platform buyers can deliver procurement information, suppliers who see these procurement information will provide a targeted quotation, buyer will reply the interested quotation. Finally buyers and sellers will reach a deal. This market is designed to help buyers save their time to browse products, improve procurement efficiency, and it also becomes one of the channels for suppliers to find more high-quality customers.

Recent years, the rapid development of RFQ market attracted more and more suppliers and buyers' concern. To improve the demand matching between buyers and sellers, 2016, RFQ market became commercial, RFQ market rules were updated. Compared with the original rules, quotation rule has been greatly changed. Before that, RFQ market only was open to paid members in Alibaba International. After the commercialization of the market, it will be open to all foreign trade enterprises. In the RFQ market, the bidding rights mainly include the fundamental quotation rights, market performance, the participation of activities reward rights, as shown below (Figure 1).

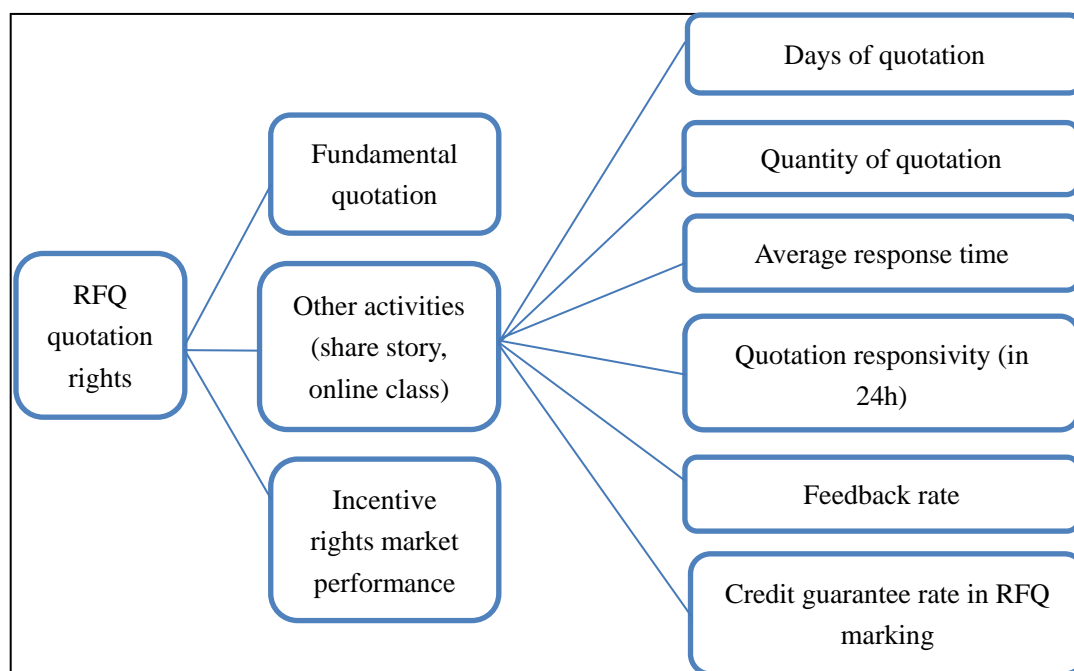


Figure 1. Source of quotation rights under new RFQ rules.

Recent years, original equipment has developed rapidly in China, which occupies a large number of market shares in Alibaba.com. The basic meaning of OEM is brand production cooperation. The products produced by a party A's factory are selected by a party B, and Party B shall entrust Party A to produce as the original sample and mark the trademark of Party B, which shall be purchased by Party B. OEM trade in China's foreign trade has always accounted for more than 50%, becoming the most important contribution to trade surplus, in the short term, this trend will be intensified.

However, the current processing trades in China are mainly OEM production, with low profit and low labor force comparative advantage, which increases the competition in the industry. OEM companies need to find their own business strategy, improve business efficiency. Therefore, analysis of Alibaba.com business strategy becomes a necessity, which brings new opportunities to small OEM business.

### **TY Company Case Study**

TY Company is a modern plastic products manufacture enterprise. It was established in 2005, the registered capital of five million yuan, annual turnover of more than 10 million. It is a company with production and manufacture of auto parts and mechanical processing of foreign enterprises. More than 90% of the products are sold abroad. It is specialized in producing thick vacuum-formed and injection plastic products which are made by ABS, PVC, PS, HDPE, PC, PMMA or other complex materials. These products mainly are applied in large plastic car parts, toys, plastic shell for machine, home appliance, medical equipment, architecture, health and care etc. It has a wide range of cooperation with many well-known enterprises and has established good reputation with good quality.

The company has experienced two major stages of development: 2005-2011, the company set up their own vacuum-formed product factories, and worked closely to raw materials factories and other factories to expand their own strength, gradually the company got stable customers; 2011-2017, the company has tried to develop overseas customers and obtained diversified investment, through the Alibaba.com and other platforms to expand the international e-commerce market share. They have more than 30 employees, including workers, financial personnel, and sales staff.

#### **The Development of TY Company in Alibaba RFQ Market**

Through B2B cross-border e-commerce platform, TY Company provides OEM products and services for global buyer, with lower agent fee and less communication cost. Although more than 90% of the company's products are sold abroad, its online sales account for only 20% of company revenue, the proportion of cross-border e-commerce is low, which indicate that there is still plenty of room for growth.

So far, through the following Table 1 and Table 2 we can find that plastic OEM buyers source of auto parts industry in Asia RFQ source countries. As we can see from Table1, the main source continent of customers is Asia, reaching 33%. Both of North America and Europe are more than 20%, ranking second and third, followed by Africa and South America. From Table 2, we can find in the main areas of plastic OEM, Asia, the largest number of RFQ countries is India, accounting for nearly 10%, followed by China, Pakistan and other countries (Table 1, Table 2).

Table 1

*March 2017 Plastic Processing Industry Buyer Source*

Ranking	Continent	Proportion of numbers of buyers
1	Asia	33.24%
2	North American	28.88%
3	Europe	23.42%
4	Africa	5.55%
5	South American	5.01%
6	Oceania	3.90%

Table 2

*March 2017 Auto Parts Industry Asian Market RFQ Source Country*

Asian	Industry can quote the amount	Proportion
India	220	9.93%
China	98	4.42%
Pakistan	64	2.89%
Malaysia	60	2.71%
Thailand	47	2.12%

### Problems Faced by TY Company

- Product structure and the price system are unreasonable. TY Company is not fully ready for cross-border ecommerce at the moment. The product structure is not suitable for market: for those conventional products, the profit product does not coincide with the popular product. Without establishing a definite price system, the quotation is not standardized and human factors will affect the specific project. Online market development awareness is relatively weak, and there is no relatively mature development strategy.

- Lack of marketing expansion channels. TY Company mainly used third-party platform to carry out cross-border e-commerce, so it was limited by platform's rules and funds, there were only a few financing channels. At present, the company mainly relies on Alibaba.com, although they have their own online shops, the actual utilization rate is relatively low, many information updates are not timely.

- Lack of design capability. TY Company used to work with customers that have specific capabilities in terms of quantity, quality, and customization. Without customer providing sketch or samples, the company seldom has self-developed products, and is unable to provide packaged solutions.

- Insufficient funding of R&D. As one of the small OEM, lacking of awareness of innovation is a serious problem, which seriously affects the profitability. But TY Company has limited funding for R&D.

### TY Company's Improvement Plan

- Online operation is taken care of by a specially assigned person. There are three people in foreign trade department, and one of the members will be responsible for summarizing the quotation price and amount in RFQ market and analysing RFQ market to improve work efficiency. Complex operations are outsourced to some professional operating companies that focus on the Alibaba platform daily inquiry. They are responsible for increasing channel exposure.

- Increase R&D investment: From Figure 2 we can find the majority of system recommended RFQ inquiry in plastic products are samples. There are great inquiries of demand, which indicate TY Company should allocate more resources on research and develop their own new products constantly. Attention to technical

progress and personnel training, increasing research and development and improving product quality and technical performance, are very important for a enterprise to remain dominant in the market place. TY Company has set up a special R&D department which is mainly responsible for independent product development. Currently, TY Company is developing its own roof suitcase on car, since the foreign roof suitcase market is relatively broad.

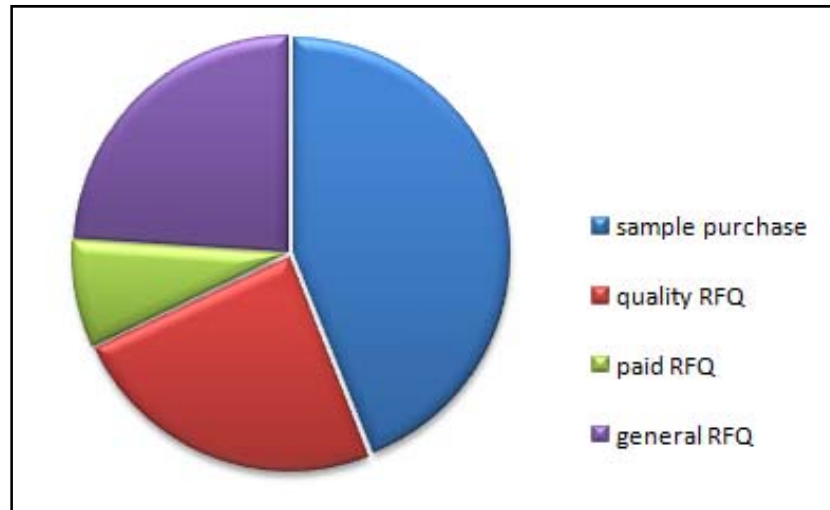


Figure 2. The system recommended RFQ in plastic products.

- Establish a new pricing scheme: TY Company has now begun to adjust its pricing system sorted by season, production stage, and destination for different categories of quotations. Moreover, customers are ranked by their intention, turnover, size and other factors. Customers of higher rank will be given priority and be followed up in real time with additional attention.
- Enhance marketing: TY Company spends a lot of funds on advertisement in Alibaba.com, at the same time, TY Company also signs a contract with a professional marketing team from Google and third parties to construct their own website, and releases appropriate information on social media.
- Emphasis on innovation: TY Company adopts new technology to reduce costs by producing their own mold, the original 6,061 aluminums are replaced by resin material, and the advantages of resin mold are environmental protection and high utilization which can greatly reduce the cost of mold. They establish long-term cooperative relations with research institutions.
- Use Trade Assurance: To build trust between SME buyers and sellers is time-consuming and costly. The lack of credit makes it difficult for SMEs to get loans from banks. Data solve these obstacles. Alibaba.com provides a service named Trade Assurance. It ensures that suppliers honor important contractual obligations, reducing transaction costs, fostering trust, and eliminating ambiguity.

### The Effect of TY Company Strategies

After the professional operating companies taking over the TY Company's running on Alibaba.com, they try to increase the number of Alibaba P4P products (Pay for performance, it is a form of pay per click promotion on Alibaba.com) to promote more products. From March 2017, they have increased the amount of P4P investment to make sure that promotion time is lasting more than 20 hours per day. At the same time, they have increased the product images and introduction, so that the click-through rate on the product details page

can be increased. In the course of time, metrics includes the proportion of effective products, click-through rate and feedback rate are significantly improved.

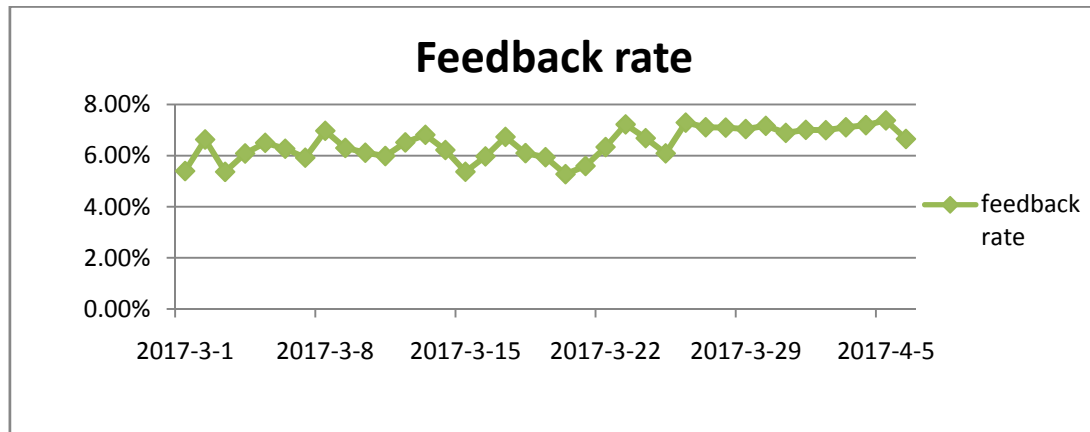


Figure 3. TY Company's feedback rate from March to April 2017.

Figure 3 shows that since March 2017, TY Company's product feedback rate rises from 5% to 7%, while the total product is basically stable, and it indicates that the total number of inquiries is increasing. Feedback brings more business opportunities, and the increase in the feedback rate has a positive impact on the order conversion rate. Data analytics provided by Alibaba.com indicates that most of the inquiries for TY Company come from P4P click. It proves that raising funds on P4P is obviously effective.

From the feedback data, TY Company found that a large portion of the customer demand was sample requirements. That means the customers directly request the purchase of finished products without samples or blueprint, which beyond the current capability of TY Company. Nowadays, TY Company has begun to develop their own products. They are looking for the buyers who are interested in roof suitcase, and expect to put into production within the next few months.

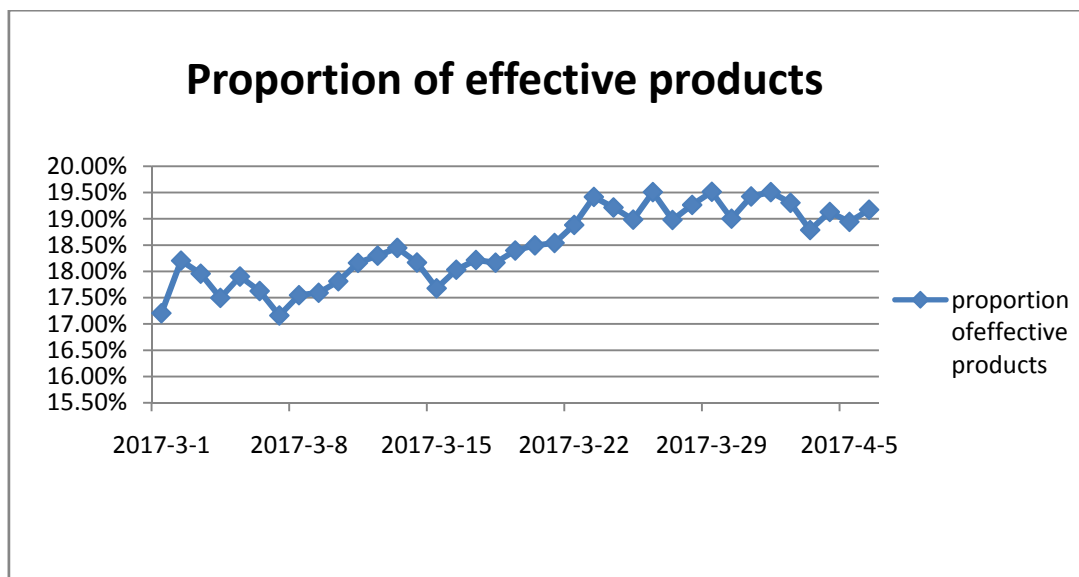


Figure 4. The proportion of effective products in TY Company from March to April 2017.

According to Figure 4 we find that from March 2017 to April 2017, the proportion of effective product in TY Company has a significant increase from 17% to about 19%. It is due to the standardization of management, there are well trained staff who are in charge of regularly check and improve the product detail page, add new products, delete invalid pages, and withdraw unprofitable products. The increasing proportion of effective products can ascend the company's shop score, to some extent, and it can reduce the cost required on each inquiry of P4P products. Therefore, with limited funding, TY Company can get longer promotional time and obtain more business opportunities.

### Conclusion

China is projected to become the world's largest cross-border e-commerce market by 2020. Despite the recent global financial crisis and subsequent sluggish growth in international trade, China's cross-border e-commerce has maintained a growth rate of about 30% a year. From 2008 to 2016, trade volume grew from CNY 800 billion (around US\$123 billion) to about CNY 6.5 trillion (around US\$1 trillion).

Alibaba is one of the best performing platforms. In order to get more benefits on Alibaba.com, small OEM businesses can start with the following aspects: constructing the professional operating team, rational use of RFQ reward rules, analyzing customer's requirements, training staffs to improve RFQ quotation skills, making good use of platform information to diagnosis and optimization, transformation and upgrading of OEM. In this paper, we take TY Company as an example, to analyze the TY Company's business strategies and the effect of these strategies. The data showed that operating effect is encouraging, so the strategies are certain reference for other companies. In order to improve the order conversion rate and seize the development opportunities, foreign trade OEM companies need to fully understand the platform rules to improve operational countermeasures and use proper marketing tools to improve business efficiency. Last but not least, they should focus on what they do best: adding value through research, design, marketing, talent development, etc.

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