

# **Alibaba.com sourcing guide for Finnish small and medium-sized enterprises**

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<b>Degree programme</b> Bachelor of Business Administration	
<b>Report/thesis title</b> Alibaba.com sourcing guide for Finnish small and medium-sized enterprises	<b>Number of pages and appendix pages</b> 45 + 32
<p>The objective of this project-based thesis is to offer guidance for Finnish small and medium-sized enterprises (SMEs) about the use of Alibaba.com online marketplace in China-based sourcing, in the form of a guide. The guide offers information about looking for suppliers and products, how to distinguish between sellers and how to contact them, what the recommended sourcing process is and what risks may be involved. In addition, the guide aims to offer a better understanding of Alibaba Group as a whole.</p> <p>The thesis author has personal experience in China-based sourcing, having worked for a Chinese sourcing company in Shanghai for two years. Personal interest and know-how, as well as the fact that Alibaba Group is still relatively unknown in Finland, made it a natural choice for the author to write the sourcing guide.</p> <p>The theoretical framework of the thesis comprises of the background research the author conducted prior to writing the guide, in order to obtain a comprehensive understanding of the topic and the concepts related to it. The secondary objective is for the theoretical framework to support the need and purpose of the guide.</p> <p>The thesis itself comprises of two sections: theoretical framework and empirical part. The theoretical framework is divided into two main themes, out of which the first discusses internationalization in Finnish SMEs in the forms of exports, imports and global sourcing, and presents trade relations between Finland and China. The second chapter of the theoretical framework discusses the concept of electronic commerce and its different forms, with a deeper look into business-to-business (B2B) level electronic commerce. In addition, Alibaba Group and its online marketplaces, including Alibaba.com, are introduced in the chapter.</p> <p>The empirical part of the thesis introduces the process of writing the guidebook. The section discusses the project starting point and project plan, and presents the structure of the project and how the final product, or guide turned out to be. The last chapter of the thesis, discussion, includes the author's conclusions for the whole thesis project and future development ideas, as well as presents what the author learned from the writing process.</p> <p>The thesis project was started in November 2016 and finalized in March 2017. The objectives that were set were reached.</p>	
<b>Keywords</b> Global sourcing, internationalization, SME, e-commerce, B2B, online marketplace	

## Table of contents

1	Introduction .....	1
1.1	The aim of the thesis .....	2
1.2	Limitations of research .....	2
1.3	Structure of the thesis .....	3
2	Finnish SMEs and international trade .....	5
2.1	Internationalization in Finnish SMEs .....	7
2.2	Exports .....	9
2.3	Imports .....	10
2.4	Global sourcing .....	11
2.5	Trade between Finland and China .....	13
2.5.1	Trade in numbers .....	14
2.5.2	Benefits for Finland .....	15
3	E-commerce and Alibaba .....	17
3.1	B2B e-commerce .....	18
3.2	Benefits of e-commerce .....	19
3.3	Alibaba Group .....	19
3.3.1	Alibaba Group's businesses .....	21
3.3.2	Alibaba.com .....	23
4	Project description: Alibaba.com sourcing guide .....	25
4.1	Starting point .....	25
4.2	Project plan .....	26
4.3	Project structure .....	28
4.4	The final product .....	34
5	Discussion .....	35
5.1	Conclusions .....	35
5.2	Future development .....	38
5.3	Project assessment and learning outcomes .....	39
	References .....	41
	Appendices .....	46
	Appendix 1. Alibaba.com sourcing guide for Finnish small and medium-sized enterprises .....	46

# 1 Introduction

There is no denying to the quite cliché saying that the world has become smaller since the rise of the internet. While more and more people around the globe are being connected online, businesses are also able to reach a much broader mass of clients and partners via internet. This is extremely vital especially for small and medium-sized enterprises, also known as SMEs. SMEs often operate under limited resources, adding additional risk to intercontinental trading. Electronic commerce today has enabled SME-level businesses in all the corners of the world to connect with the right partners.

Electronic commerce, also known as e-commerce, can be briefly defined as the sale and purchase of products or services over the internet. The most common types of e-commerce transactions are business-to-consumer (B2C) and business-to-business (B2B). (Investopedia 2016a.) Although there are many large players such as eBay and Amazon on the field of e-commerce, there is one giant with a big role on both B2C and B2B e-commerce markets. This giant is China based New York stock exchange listed Alibaba Group. In November 2015 Alibaba Group generated a record breaking US\$14.3 billion in sales through its online shopping platforms in just 24 hours, and during the same year the company achieved a revenue of US\$12.3 billion (Alibaba Group 2015a; Berke 2015). Needless to say that e-commerce is booming in China.

In addition to the record-breaking online shopping platforms, Alibaba Group provides a global sourcing marketplace for businesses all around the world. Jack Ma, the founder of Alibaba Group wanted to support small and medium-sized enterprises by establishing Alibaba.com in 1999. This wholesale marketplace aims to connect Chinese suppliers to importers, wholesalers and distributors across the globe. (Alibaba.com 2016.) According to Alibaba Group, Alibaba.com is used by buyers such as trade agents, retailers, manufacturers, wholesalers and SMEs in over 200 countries (Alibaba Group 2016a, 72), yet it still is rather unknown in some western countries, like Finland. During the past few years Alibaba has increased its visual presence in the West by being listed on the New York stock exchange in September 2014 and investing in US companies (World Finance 2015). With the increasing visibility in the West, Alibaba is establishing itself as an important tool for SMEs for entering the world of global trade.

As the Finnish market is relatively limited, many Finnish SMEs are seeking growth from other countries. In 2016 about 20 percent of Finnish SMEs were engaged in some form of international business, the most common form being exports. (Malinen & Seppänen 2016,

24-27.) However, only a few Finnish SMEs have seized the opportunity of taking advantage of the benefits of global sourcing in their supply chain. This is often due to the fact that SMEs lack the resources and knowledge about global markets. (Rönkkö 2013.) As Alibaba.com marketplace is aimed especially for SME-level sourcing operations, Finnish small and medium-sized enterprises could have the opportunity to exploit the platform in their global sourcing operations.

## **1.1 The aim of the thesis**

The aim of this project-based thesis is to offer guidance on how Finnish small and medium-sized enterprises can use Alibaba.com online marketplace for China-based sourcing and operate on the website for finding products and suppliers, in the form of a guidebook. How to find products from Chinese suppliers on Alibaba.com? How to find and contact reliable manufacturers? How to distinguish between factories and trading companies? How to establish relationships with Chinese suppliers? What are the risks involved? The guide aims to answer all these questions. In addition, it aims to offer a better understanding of Alibaba Group. The guidebook can be found from the appendices of this thesis in Appendix 1. The topics presented in the theoretical framework of this thesis are associated with the background research the author did before writing the project, or in other words guide. The secondary objective of the thesis is for the theoretical framework to support the need and purpose of the guide.

The author of this thesis has personal experience in sourcing in China, having worked for a Chinese sourcing company in Shanghai for two years. Personal interest and know-how about the field made it a natural choice for writing an Alibaba.com guide for Finnish SMEs. The author saw the need for the guidebook, since Alibaba Group and Alibaba.com are still relatively unknown in Finland, and comprehensive guidance for Alibaba.com sourcing targeted for Finnish SMEs was not available.

## **1.2 Limitations of research**

The research about Finnish SMEs presented in the first chapter of the theoretical framework will only cover internationalization in Finnish SMEs in the forms of exports, imports and global sourcing. The forms of internationalization further studied are limited to these topics, as they are the most relevant themes for this thesis. Recent trade relations between Finland and China will be discussed on a country level, as access to information about Finnish small and medium-sized enterprises' trade relations between China was not

available. The second chapter of the theoretical framework will introduce e-commerce and its different forms, however it will only study B2B e-commerce on a deeper level. Alibaba Group and its businesses are briefly introduced, but not further studied (excluding Alibaba.com).

The guide will only cover the purchase of physical products. Services, such as global logistics are not discussed. The guide will only include information about sourcing from Chinese suppliers. Neither the theoretical framework nor the guide will discuss how to implement the Alibaba.com sourcing process to a company's existing procurement process. It will only work as a handbook with guidelines for using Alibaba.com for the sourcing purposes in a Finnish SME.

### **1.3 Structure of the thesis**

This project-based thesis consist of two parts: theoretical framework and empirical part. The theoretical framework is divided into two main themes; Finnish small and medium-sized enterprises and international trade, as well as electronic commerce and Alibaba. Furthermore, a guidebook for the use of Alibaba.com global sourcing marketplace targeted for Finnish SMEs is included in the appendices. As mentioned, the topics presented in the theoretical framework are associated with the research the author did prior to writing the guide, and the empirical part discusses the writing process of the said guidebook.

The theoretical framework begins with the introduction to the situation of internationalization in Finnish SMEs; in the forms of exports, imports and global sourcing. As the guide conducted for this thesis discusses the use of Alibaba.com online marketplace for sourcing operations from China, the recent trade relations between Finland and China are discussed. The second main chapter of the theoretical framework presents the concept of electronic commerce and its different forms, with a deeper look into business-to-business e-commerce. In addition, the chapter discusses the benefits of e-commerce, after which Alibaba Group and Alibaba.com are introduced. Finally, the empirical part looks into the writing process of the guidebook. The section discusses what the project starting point was, how the project was planned, what the structure of the project is, and how the final product turned out to be. The last chapter of this thesis, discussion, contains the author's conclusions and learning outcomes of the whole thesis project. Lastly, the guide can be found from Appendix 1.

A glossary of the most important keywords is included below.

**SME:** The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 people, and have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million (European Commission 2009, 2-3).

**Internationalization:** Internationalization, or in other words globalization can be defined as the increasing tendency of corporations to operate across national boundaries. It is one of the ways for an organization to seek growth. (Investopedia 2016b.)

**Global sourcing:** The purchase of goods or services from another country. Also known as global procurement. (Logistiikan Maailma.)

**E-commerce:** Electronic commerce. The sale and purchase of products or services over the internet. (Investopedia 2016a.)

**B2B:** Form of trade described as the trade between two businesses (business-to-business) (Fangfei Wang 2010, 5).

**Online marketplace:** A type of e-commerce website where third-party sellers can offer their products or services for sale over the internet, while transactions are handled by the marketplace operator (Website Magazine 2013).

## 2 Finnish SMEs and international trade

Small and medium-sized enterprises, also known as SMEs, can be defined as enterprises with fewer than 250 employees. According to the European Union, enterprises can be qualified as micro, small or medium-sized enterprises if they fulfil maximum ceilings for staff headcount and either a turnover ceiling or a balance sheet ceiling. The below table (Table 1) indicates the ceilings which are used by the EU to define an SME. A company that employs fewer than 10 employees is called a microenterprise, and an enterprise with fewer than 50 employees is defined as a small enterprise. Enterprises that employ less than 250 people are qualified as medium-sized. As per the financial ceilings, a company is qualified as a microenterprise if its turnover or balance sheet total are below 2 million euros, or defined as a small enterprise, if the corresponding figures are below 10 million euros. A business qualifies as a medium-sized enterprise, if its turnover is below 50 million euros or balance sheet total is below 43 million euros. (European Commission 2009, 2-3.)

Table 1. Definition of small and medium-sized enterprises (European Commission 2009, 3)

SME Definition				
Enterprise Category	Ceilings			
	Staff Headcount (number of persons)	Turnover	Or	Balance Sheet Total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Small and medium-sized enterprises play quite a significant role in the economy and employment in Finland. In 2014 there were a total of 283,000 enterprises in Finland (excluding agriculture), of which 93.4 percent were microenterprises with fewer than 10 employees. In total the whole SME sector accounted for 99.8 percent of Finnish enterprises, which means that there were a total of 282,434 SMEs and only 566 enterprises with more than 250 employees. Small and medium-sized businesses generated about 57 percent of the combined turnover of all Finnish businesses, which was about 385 billion euros in 2014. During the same year Finnish for-profit organizations employed about 1.38 million people, out of which 25 percent were employed by microenterprises, and the whole SME sector accounted for 65 percent of the number of employed. (Malinen & Seppänen 2016, 11.) It is no wonder that SMEs are often called as the backbone of Finland's economy.



This thesis uses a Finnish small and medium-sized enterprise barometer survey as a source of information about the SMEs in Finland. The barometer survey was conducted during the fall of 2016 by the Federation of Finnish Enterprises, Finnvera and the Finnish Ministry of Economic Affairs and Employment. The objective of the barometer survey is to offer information about the economic situation of SMEs in Finland. The results indicated in the survey are based on the answers of 6010 small and medium-sized enterprises that took part in the study. As there are about 282,400 SMEs in Finland, it is worth mentioning that the information discussed in this thesis is based on the results of the said survey and its 6010 respondents.

The below pie chart (Figure 1) indicates the main industries of the SMEs that took part in the barometer survey. There were 485 enterprises from industrial field, which accounted for 8 percent of the respondents. 944 enterprises were engaged in construction (16 percent) and 1016 were operating on trading sector (17 percent). The largest group of respondents came from enterprises offering services. These businesses accounted for 59 percent of the respondents, and a total of 3565 enterprises. Most of the enterprises that took part in the survey were based in the Helsinki capital area, as almost 1000 responses came from the area. (Malinen & Seppänen 2016, 10.)

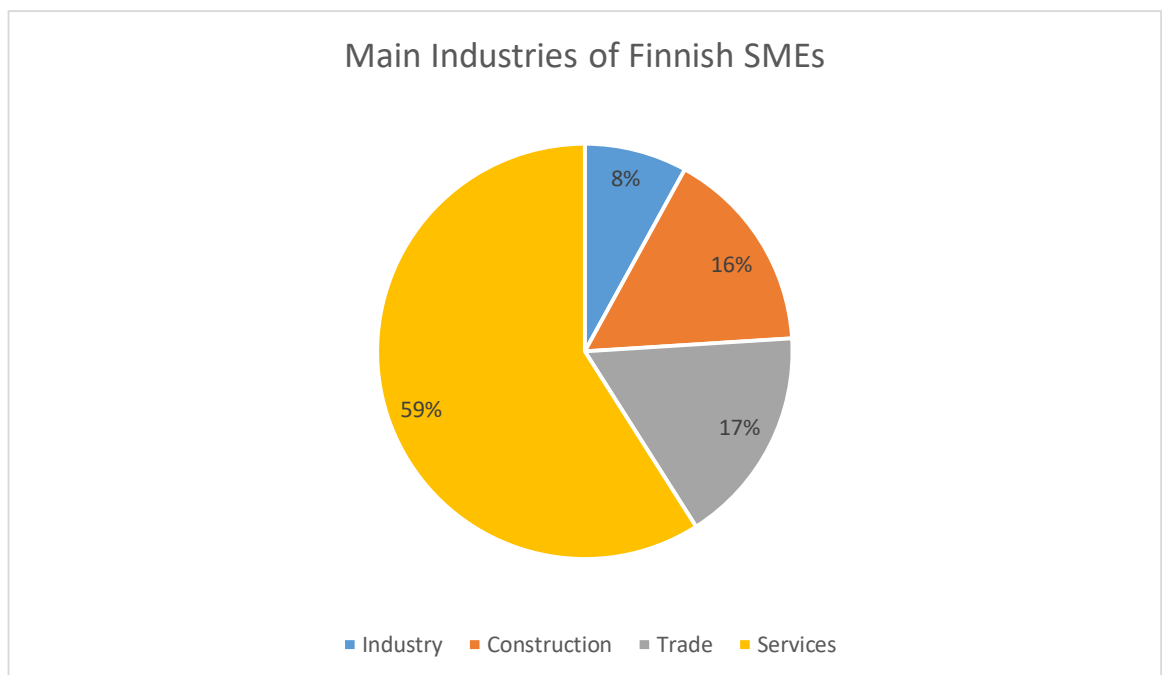


Figure 1. The main industries of Finnish SMEs according to a barometer survey (Malinen & Seppänen 2016, 10)

## 2.1 Internationalization in Finnish SMEs

Innovative, growth-oriented companies are important for the growth of national economy and employment. In addition to creating jobs, business growth is important in order to achieve better profitability and competitive position. According to the barometer survey, about 11 percent of the SMEs that participated in the survey defined themselves as highly growth-oriented, and about 39 percent stated to seek growth as much as possible. 16 percent did not set seeking growth as a target. In 2016 Finnish SMEs were seeking success and growth mostly by making investments, by training staff or by looking for new products or by expanding to new markets. In addition, SMEs exploited a variety of digital services in their operations, in order to find growth from new customer groups, partners and to offer better customer service. For example, 82 percent of the SMEs stated to have their own company website, 49 percent used social media and 20 percent claimed to do their purchasing online. 33 percent of the SMEs stated that the most significant reason for using digital services is to reach new customer groups, and 30 percent felt that it strengthens their business image. Moreover, some SMEs exploited digital services in order to internationalize more efficiently, but 37 percent stated that the use of digital services has not affected their business's internationalization. Only 13 percent of the SMEs felt that the use of digital services has enabled them to internationalize better. As the Finnish domestic market is relatively limited, internationalization is a way for many Finnish SMEs to seek growth. (Malinen & Seppänen 2016, 24-27.)

In commerce internationalization, also known as globalization, can be defined as the growing tendency of corporations to operate across national boundaries (Investopedia 2016b). Internationalization is one of the ways a company can seek growth, although it can be a big step to take, especially for an SME. In 2016 internationalization was most common among the 11 percent of the SMEs that defined themselves as highly growth-oriented. About 50 percent of these strongly growth-oriented businesses were engaged in some form of international business. In total about 20 percent of all SMEs were engaged in exports, or were doing some form of business overseas. In practice, this means that there were about 57,000 SMEs in Finland that were exporting products or services, or had other business operations in foreign countries. (Malinen & Seppänen 2016, 7, 20, 28.)

Figure 2 on the next page indicates the forms of internationalization among the SMEs that took part in the survey, and among the SMEs that reported to do exports or had some form of operations outside of Finland. According to the survey, the most common form of engaging in international business was direct export, which 64 percent of the SMEs reported to do (Malinen & Seppänen 2016, 20). Direct export means a situation, in which a

business sells its products or services directly to a customer in a foreign country, without the use of another entity's services in the export process (Cambridge Dictionary, 2016a). 18 percent of the respondents claimed to have a foreign joint venture or a subsidiary. This means that 18 percent of the Finnish SMEs either co-owned a business abroad with another company, or acted as a parent company for a business of which they owned partly or completely, by owning at least 50 percent of the company's voting stock. (Investopedia 2016c; Investopedia 2016d; Malinen & Seppänen 2016, 20.) 10 percent of the SMEs reported to have wage or contract manufacturing in foreign countries. In other words, these SMEs were manufacturing products with their own brands abroad. 9 percent of the SMEs reported to have franchising or licensing operations in foreign countries. (Malinen & Seppänen 2016, 20.) Simply put, these SMEs had given foreign companies the right to use their business model or service in return for a monetary consideration, or given the permission to manufacture their product against a specified payment (Entrepreneur 2017a, Entrepreneur 2017b). 20 percent of the respondents were engaged in international business in some other form, reported as "others" (Malinen & Seppänen 2016, 20).

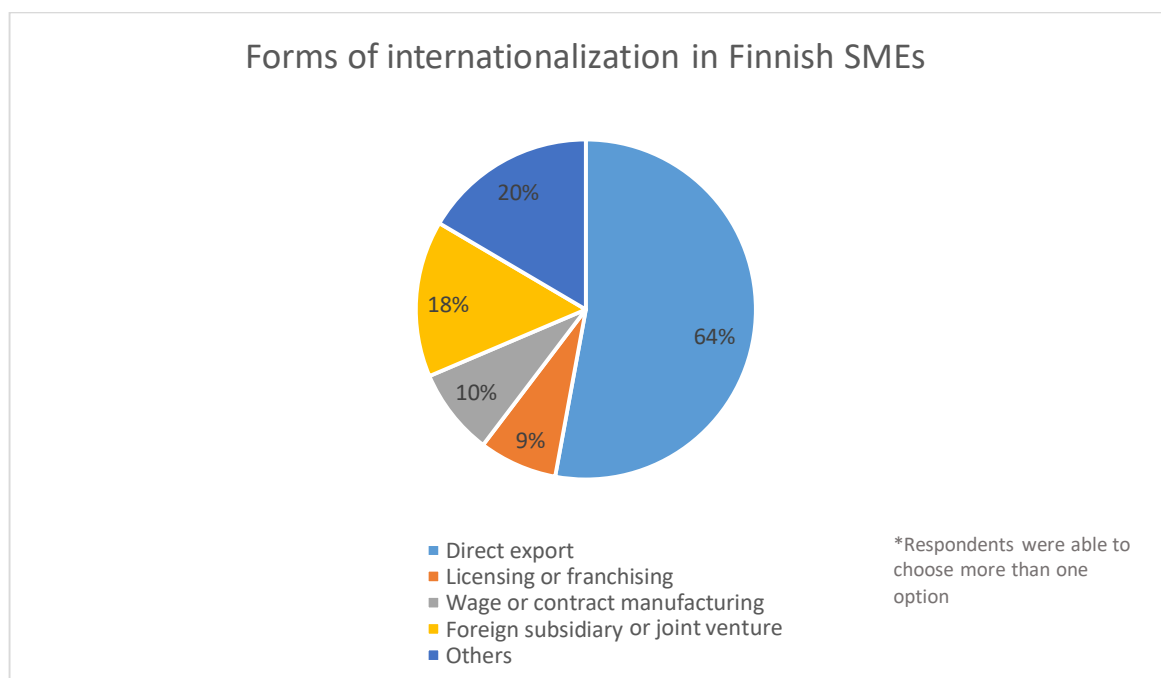


Figure 2. Forms of internationalization in Finnish SMEs according to a barometer survey (Malinen & Seppänen 2016, 20)

The exports and imports in Finnish SMEs will be discussed in more detail in the following next two subchapters 2.2 and 2.3. The other forms of internationalization will not be further studied, as these are not relevant for the objective of this thesis.

## 2.2 Exports

Exports are of great importance to the growth of Finnish economy. Direct export is the most common form of internationalization among Finnish SMEs. As previously mentioned in this thesis, more than half of the SMEs that took part in the barometer survey and were engaged in international business or export, were practicing direct export (Malinen & Seppänen 2016, 20). According to Finnish Customs' foreign trade statistics, the value of exports of small and medium-sized enterprises were 2.1 billion euros in the second quarter of 2016. The total value of exports in all Finnish enterprises was about 13.6 billion euros, which means that SMEs accounted for about 15 percent of the total value. (Tulli 2016a, 1.)

To give an idea about the most significant export product categories in Finnish SMEs, during the second quarter of 2016 the product category with the highest export value was machinery, which accounted for about 4 million euros. The second largest item group was products of electrical industry with a value of about 3.3 million euros, followed by products of chemical industry with 2.8 million euros. The fourth largest category was lumber products with a value of about 2.5 million euros, and vehicles came fifth with a value of 2.1 million euros. The export value of metals and metal products was about 1.8 million euros. Another significant product segment for exports was a category named as "other products", which had a value of 4.1 million euros. The values of all of the previously mentioned product categories increased from 2015, except for products of electrical industry. The export value of this category remained the same in 2016 as in 2015. (Tulli 2016a, 1, 4.)

As per the barometer survey, the most common destination for Finnish small and medium-sized enterprises' exports were the EU countries with about 89 percent of products exported to the area. In addition to the EU countries, other significant destinations were other countries in the Europe area and Russia, which both cover the same amount, 27 percent of the exports. The exports of Finnish SMEs also have a strong presence in China (16 percent) and other Asian countries (18 percent). Exports to North America and Canada were also quite notable, since about 22 percent of the SMEs did exports to these areas. The survey respondents were able to choose multiple options for destinations. (Malinen & Seppänen 2016, 29.)

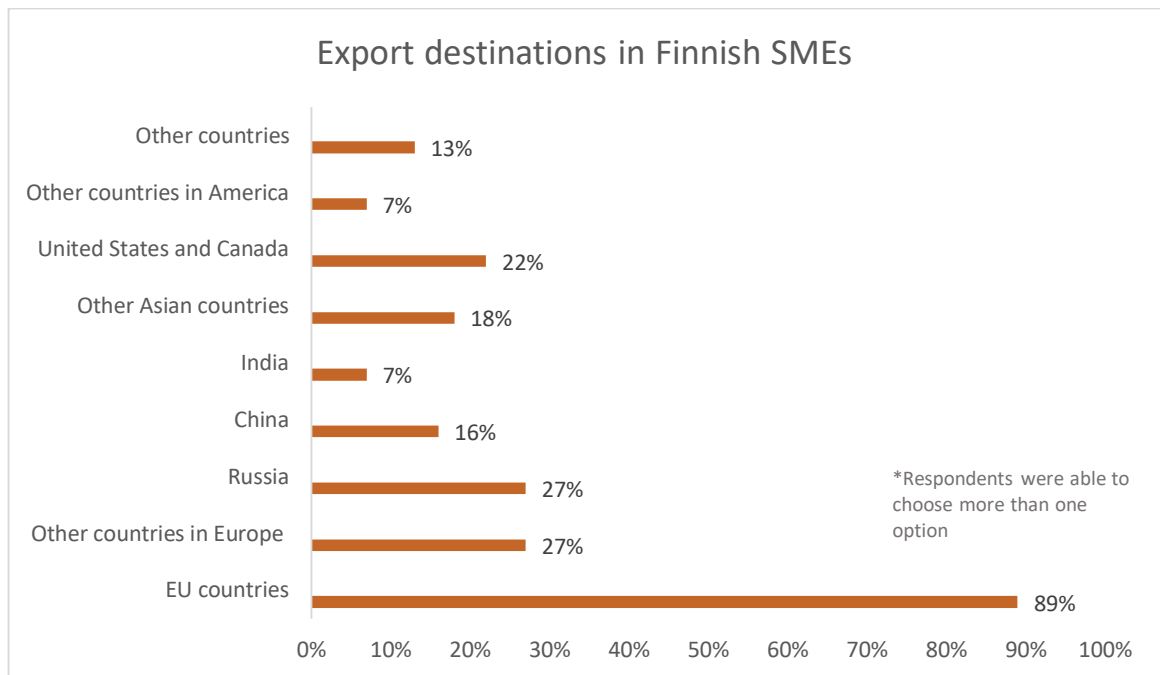


Figure 3. Destinations of export in Finnish SMEs according to a barometer survey (Malinen & Seppänen 2016, 29)

### 2.3 Imports

Almost every fifth of the SMEs that took part in the barometer survey stated to practice direct import (Malinen & Seppänen 2016, 21). Direct import occurs, when a company imports products directly from another country, without the use of another company's arrangements or services (Cambridge Dictionary 2016b). The below Table 2 indicates the percentages of SMEs with direct imports by industry. 47 percent of the SMEs in the field of trade reported to have direct import operations, which means that there were about 480 respondents from the field. The second largest group came from the industrial field (by percentage), with 44 percent and about 210 respondents, followed by the construction field with 13 percent and 125 respondents. Only 8 percent of the businesses in the service field reported to have direct imports, which however accounted for about 280 respondents, as the largest group of respondents came from the service field. (Malinen & Seppänen 2016, 21.) Nonetheless, on the basis of the survey results it can be concluded that most SMEs that did imports were operating on the field of trade.

Table 2. Finnish SMEs with direct imports by industry, according to a barometer survey (Malinen & Seppänen 2016, 21)

SMEs with direct imports	All enterprises	Trade	Industry	Construction	Services
	18%	47%	44%	13%	8%

The value of small and medium-sized enterprises' imports was 4 billion euros in the second quarter of 2016. The total value of imports in Finnish companies was about 13.7 billion euros, and SMEs accounted for 30 percent of this value. From April to July 2016, the import value increased about 5 percent from 2015, compared to the same time period. (Tulli 2016a, 1.)

In the case of imports, the largest item group imported by Finnish SMEs was products of chemical industry, which had a value of about 7 million euros. The second largest product category included products of electrical industry with a value of about 6.8 million euros, followed by machinery, which valued about 5.5 million euros. On the third place were metals and metal products with a value of about 4 million euros, and vehicles had a value of about 2.4 million euros. The smallest import value came from lumber products, which had a value of about 1.1 million euros. Uncategorized products valued 1.3 billion euros. The import value of all of the previously mentioned categories increased from 2015. (Tulli 2016a, 1, 4.) As there was no statistical information available about the countries Finnish SMEs do imports from, it will not be studied in this thesis.

## **2.4 Global sourcing**

Naturally, internationalization has an impact on companies' procurement. International procurement, also known as global sourcing, includes number of concepts. In English language terms such as international purchasing, offshore sourcing and international procurement are used when a company obtains or buys goods or services from another country. In Finland, the term global sourcing is most commonly used. Among other things, global sourcing includes cooperation between different entities, by the use of for example common technology. Global sourcing is growing as a strategic solution in many companies, and therefore the emphasis on cautious supplier selection and evaluation has increased. As companies are willing to exploit the cost differences between different countries, global sourcing has become more and more common. (Logistiikan Maailma.)

Figure 4 on next page displays the most common sourcing practices in Finnish medium-sized enterprises. In this case only medium-sized enterprises are studied, as there were no reliable recourses found for information about the situation in small enterprises. In 2008, maximum one fifth of purchases in half of Finnish medium-sized enterprises was international procurement. As there were about 262,200 SMEs in 2008, it practically means that 20 percent of purchases in about 131,100 enterprises was international procurement. (Logistiikan Maailma; Suomen Yrittäjät 2009, 1.) A third of the companies were operating

on global markets. The most common form of international procurement was direct purchase, which means the purchase of goods directly from the manufacturer or supplier. The second most common form was to do cooperation with foreign suppliers, and the last option was to do direct purchasing via own departments. (Logistiikan Maailma.)

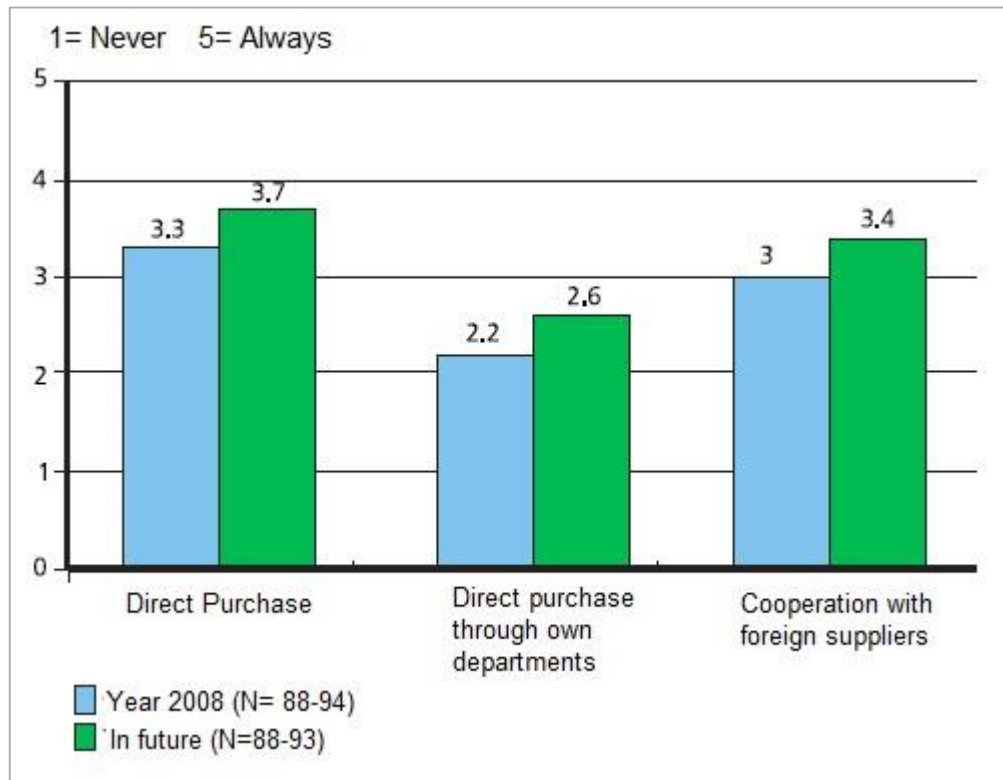


Figure 4. Global sourcing practices in Finnish medium sized companies (Logistiikan Maailma)

According to an article published on a Finnish magazine *Talouselämät*, SMEs still have a lot to learn about the exploitation of global sourcing. SMEs need to understand that a company's competitiveness is formed from the basis a competitive supply chain – only few can build success alone. (Rönkkö 2013.) Simply put, supply chain means the network between a business and its suppliers to manufacture and distribute a product. It includes the steps it takes to get a product or service to the end user. (Investopedia 2016e.) Big Finnish companies have efficiently taken advantage of the international procurement markets in their supply chains, but SMEs have yet to seize the opportunity. This is due to the fact that SMEs often lack the resources, networks and knowledge that are required on the global markets. The issues that SMEs have often faced on international markets are problems with quality control, delivery times, cultural differences and logistics. However, it is shown that low-cost country sourcing, such as sourcing from East Asia, has a significant positive impact on the competitiveness of an enterprise and on the economy as a whole, and Finnish SMEs could benefit from the exploitation of foreign markets in their supply

chains. The use of international networks enable a company to purchase parts and intermediate products needed for manufacturing their own products, saving costs and possibly improving the quality of the end product. This could be useful especially for companies manufacturing electrical appliances and machinery. (Rönkkö 2013.)

## **2.5 Trade between Finland and China**

As this project-based thesis focuses on the procurement of goods from China, the trade history between Finland and China will be briefly introduced in this subchapter. The information presented is valid for all Finnish companies with trade relations with Chinese businesses. As statistical data about SMEs with international trading operations with China was not available, it will not be studied.

Alongside Norway, Denmark and Sweden, Finland was one of the first countries to recognize the People's Republic of China, and one of the first countries in the West to form diplomatic relations with the country. Finland recognized the People's Republic of China on January 13<sup>th</sup> 1950, and diplomatic relations between the two countries were established on October 28<sup>th</sup> 1950. The Finnish Embassy in Beijing was opened in February 1952 as the Finnish personnel entered the city. Other highlights in the trade history between Finland and China include the opening of a commercial section in 1952 to promote trade relations between Finland and China, and the establishment of bilateral trade relations in 1953. (Suomen suurlähetystö, Peking 2016.)

Finnish companies started to establish themselves to the Chinese market during the 1980's. A big investment wave begun on the next decade, when subcontractors and contract manufacturers had to follow their customers to China. The most significant reasons for Finnish companies to begin operations in China have been the huge market potential and low production costs, and the 2000's have been the transition time for Finnish companies to the market. (Kettunen, Lintunen, Lu & Kosonen 2008, 75). For many Finnish enterprises, China is also sought as part of a company's global strategy and as a requirement by their customers (Turunen & Koikkalainen 2009, 70).

China has recently grown to be the second largest economy in the world. With a population of 1.3 billion people, its role in the global economy has increased greatly (World Bank 2016). China's economic growth has been the fastest in the world, and it has been going on constantly for almost 30 years. During the past fifteen years, China's GDP has had an average growth of 10 percent per year. (Kettunen & al. 2008, 1.) Despite of the 10 percent



growth, China still is a developing country, due its income per capita is very small compared to developed countries, and its market reforms are not complete. In 2014, there still remained 70.17 million poor in the rural parts in China. (The World Bank 2016.)

### 2.5.1 Trade in numbers

Even though the global economic situation has significantly reduced foreign trade in Finland, the trade between China has declined considerably less compared to the Finnish foreign trade on the whole. During the first six months of 2016, China was Finland's fifth largest trading partner after the Netherlands and before the United States. China was the fourth most important country for imports, and the fifth most important destination for exports. (Tulli 2016b, 1).

The chart on this page (Figure 5) indicates the exports and imports between China and Finland from 2006 to 2016 (2016 January to June). The chart information is retrieved from Finnish Customs' foreign trade statistics. The statistics show that the value of the exports has increased during the ten-year period, although there have been a few cases when the value has decreased from the previous year. The export value was highest during 2013, with about 2.7 billion euros. The increase was about 6 percent from 2012. Since then the numbers have decreased to about 2.5 billion euros during 2014 and 2015, and in 2016 the value was 1.3 billion euros (January to June). The decrease from previous year was about 4 percent. China's share of Finland's total exports was about 4.7 percent in 2015, and it increased to 4.9 percent during the first six months of 2016. (Tulli 2016b, 1.)

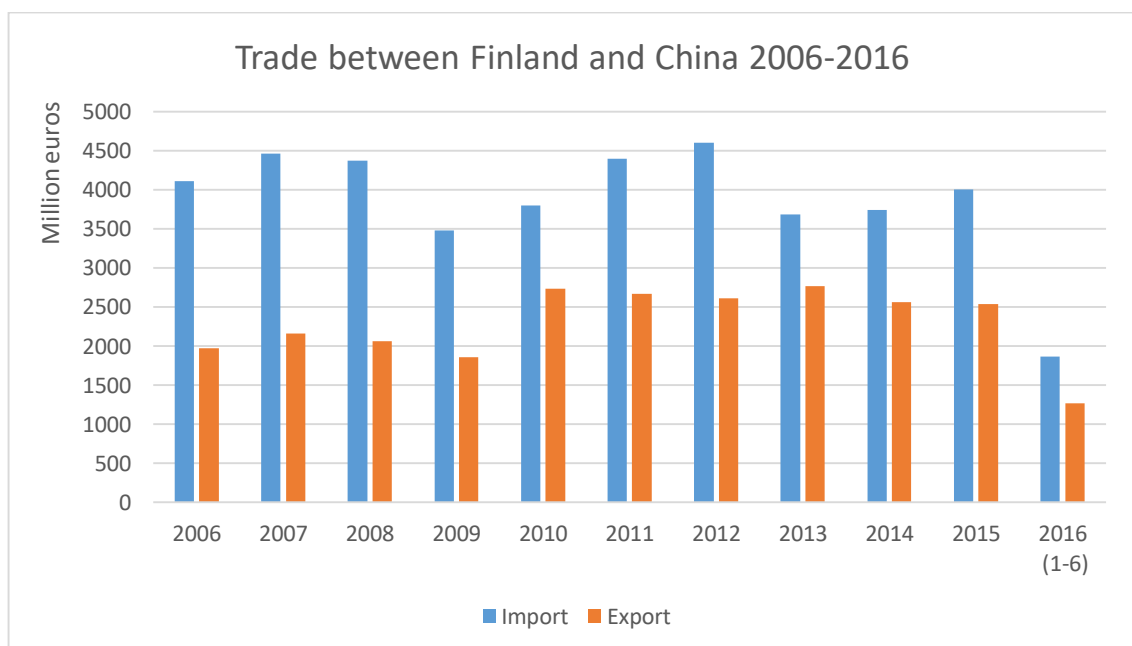


Figure 5. Trade between Finland and China 2006-2016 (Jan.-Jun.) (Tulli 2016b, 2)

During 2007 and 2008 imports from China had a value of almost 4.5 billion euros. In 2009 the number dropped with about one billion euros. After 2009 the import value had been increasing until 2013, when the value decreased from the previous year with the highest import value in ten years, which accounted for about 4.6 billion euros. In 2016 the value was 1.9 billion euros during January-June, which was a one percent decrease from 2015. (Tulli 2016b, 1.)

The export of wood, paper pulp, chemical products and electrical equipment to China were on the rise from January to June in 2016. There was growth in the export of instruments and indicators as well. On the other hand, the export of fur leather, paper and paperboard decreased significantly during the first six months of 2016. Also the export of wood products, iron and steel was in decline. There was a slight increase in imports due to a rise in imports of chemical products, electrical machinery and apparatus. Furniture, clothing and footwear were also imported from China a bit more than last year. The import of metal industry products and industrial machinery and equipment was decreasing during 2016. (Tulli 2016b, 1.)

During January-June 2016 the largest item group for Finnish exports to China were industrial machinery, which covered about 24 percent of the exports. The four other most exported goods were paper pulp (20.8 percent), electrical machinery and apparatus (13.5 percent), timber (9.1 percent) and chemicals as well as chemical products (8.8 percent). As for imports, the largest group of products imported to Finland were electrical machines and apparatus. This group accounted for 39 percent of imports. The four other significant imports are clothes and footwear (14.6 percent), industrial machinery (8.7 percent), metals and metal products (7.2 percent) and toys and sports goods (3.2 percent). Other ungrouped items accounted for 16.2 percent of the imports. (Tulli 2016b, 5-7.)

### **2.5.2 Benefits for Finland**

About a decade ago one of the biggest concerns and hottest topics for Finland and Finnish people were the job and company transitions to China. The increasing competition between companies forced businesses to take advantage of new opportunities the global world economy had to offer. These opportunities included finding new markets and improving the competitiveness by lowering the production costs by transitioning to markets with lower labor costs. This phenomenon is known as the China Phenomenon. (Ulkoasianministeriö kauppapoliittinen osasto 2004, 108.)

During the past few years the China Phenomenon has slowed down, due to increasing labor costs in China. Manufacturing in China is not as cheap as it used to be about 12 years ago, when the labor costs in the country were about 20 percent of the total costs, while the corresponding share in the developed countries was about 80 percent of total costs (Ulkoasianministeriö kauppapoliittinen osasto 2004, 90). The country is no longer considered to be an endless source of low-cost labor, although there are still millions of Chinese workers who struggle to make enough money, since the living costs have increased in large cities such as Shanghai and Beijing. Also problems such as slowing economic growth, lay-offs, wage arrears and unemployment are becoming more and more common. (China Labour Bulletin 2016.)

Even if the labor costs are increasing in China, the country is still ranked as the most competitive manufacturing nation in 2016 (Deloitte 2016). The benefits of manufacturing in China still are the low labor costs, which still are relatively small compared to developed countries. Manufacturing is also highly efficient and fast in China, due to the abundant labor force. Additionally, China's infrastructure is excellent, and new airports are being built constantly. One significant benefit for Western countries is that China is a huge market, demand and spending are increasing while the middle class earns more money. (The Economist 2015.) China is also adopting more and more Western concepts, such as intelligent automation and lean and modular product designs. One prediction is, that in the future China will combine low costs with aggressive innovation and automation. (Orr 2016.) This could make it possible for Western countries, including Finland, to choose China as manufacturer for the long run.

Recently Chinese investors have shown interest in Finland, especially in Finnish technological know-how. In 2015 a private equity firm called Beijing Capital Investment (BCI) founded a Nordic-China Growth Fund, of which purpose is to connect and combine the Nordic technology skills with the needs of the rapidly growing markets in China. BCI will invest 300 million euros in to the fund. The director of the fund, Wang Shaojun stated that China is especially interested in Finland's technological know-how, since Finland is strong in cleantech-field, and the Finnish state supports innovations and product development. (Viljanen 2016.) Such investments are extremely valuable for Finland and Finnish companies, and an enormous opportunity to strengthen the trade relations between Finland and China.

### 3 E-commerce and Alibaba

Throughout history trading goods, or in other words commerce, has had a major impact on the development of humans' life quality. A significant shift in the way commerce is conducted has happened since the growth of internet and its mass adoption around the world. Today internet is the largest marketplace in the world, bringing businesses and consumers together in a virtual world of not only information, but of products and services as well. (Belew & Elad 2009, 9.) Commerce conducted over internet is known as e-commerce, which is short for electronic commerce. There are multiple ways to define the concept of e-commerce, depending on the perspective. The Organization for Economic Co-operation and Development (OECD) defines electronic commerce as following:

An e-commerce transaction is the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations. (OECD 2013.)

The key words that can be used for defining e-commerce are: commercial transactions, organizations, individuals and electronic exchange. These key words reveal the scope of electronic commerce from a functional perspective. In a private sense, e-commerce is both international and domestic commerce, trade and business for both personal and non-personal use. Electronic commercial transactions are one of the major components of e-commerce, which refer to deals made between either private individuals or commercial entities. (Fangfei Wang 2010, 5.) To offer an even more specific definition, e-commerce can be divided into four main categories based on how the trade between different entities is conducted. The four categories are: business-to-consumer (B2C), business-to-business (B2B), consumer-to-consumer (C2C) and consumer-to-business (C2B) (Investopedia 2016a). B2C, or in other words electronic retailing, involves the sale of goods or services to individual customers, also defined as consumers. B2B can be described as the trade between two businesses, which can be completed by performance against payment or performance against performance. (Fangfei Wang 2010, 5.) In C2C e-commerce customers can trade with each other on an electronic platform, and C2B involves consumers that offer products or services to companies (Investopedia 2016a). This thesis will concentrate on the business-to-business (B2B) approach for e-commerce.

### 3.1 B2B e-commerce

Typically, a supply chain involves multiple business-to-business transactions. As previously mentioned in this thesis, there is a network between a business and its suppliers to manufacture and distribute a product, which is called a supply chain. It includes the steps it takes to get a product or service to the end user. (Investopedia 2016e.) Therefore, as companies purchase components and other raw materials from other businesses as part of their manufacturing processes, multiple B2B transactions are being made. Traditionally, B2B transactions have required a substantial amount of planning to be successful, and tight relationships needed to be formed and maintained. Traditional marketing practices, such as advertising and trade fairs, have been the way for businesses to seek out partners and business clients. Luckily since the rise of the internet and B2B e-commerce, B2B relationships have been easier to form, and internet based transactions have become a significant part of supply chains worldwide. (Investopedia 2016f.)

The internet provides an environment where other businesses can effortlessly find out about other businesses' products and services, for example via company websites, and thus lay the groundwork for future B2B transactions. Well-made company websites make it possible for interested parties to study about a business's products, and easily initiate contact if desired. Another way to seek out information about other businesses' products is to browse through online product and supply exchange websites, platforms or marketplaces, which offer the possibility to search for products and services, and engage in procurement via e-procurement connections. (Investopedia 2016f.) Probably the most well-known B2B online marketplaces worldwide are Amazon and Alibaba.com. An online marketplace is a type of e-commerce website where third-party sellers can offer their products or services for sale over the internet, while transactions are handled by the marketplace operator (Website Magazine 2013). Alibaba.com will be further studied in subchapters 3.3 and 4 of this thesis, as well as in the appendices.

Today in the US B2B e-commerce is twice the size of B2C ecommerce. According to a prediction by Forrester Research, by 2019 the B2B e-commerce market (in the US) will be worth US\$1.1 trillion compared to the B2C market at US\$480 billion. On the basis of the study, manufacturers and wholesalers are the most substantial industries for the recent growth of B2B e-commerce. (Hoar & Sheldon 2015, 7-8, 22.) The reason for this is that many manufacturers have been using outdated systems and limited sales channels for reaching clients, and B2B buyers today expect more. Manufacturers have begun to update their sales and distribution channels and wholesalers have faced the same situation, as price and availability are not the only factors B2B buyers are looking for. Manufacturers

and wholesalers are expected to operate on multiple channels, offering excellent customer experiences and services. (Columbus 2016.)

### **3.2 Benefits of e-commerce**

The global economy and society have benefitted greatly from the invention of electronic commerce. As an innovation in conducting business, it has been able to change the habits of business entities and individuals, and still continues to do so. Instead of traveling long distances to visit shops or factories, a buyer can use a computer with internet access to enter digital marketplaces online. Buyers can browse different websites, place orders and make payments online, after which the goods will be delivered to their home or shipped to the port of named destination. The most significant impact of electronic commerce in the global economy and society comes from the decrease in the seller's and buyer's distance, and from the simplification of the purchasing or trading processes. For this reason, e-commerce can improve economic efficiency, competitiveness and profitability. (Fangfei Wang 2010, 5-6.)

E-commerce provides companies, especially SMEs, with lower market entry costs and the possibility to expand and reach to a much larger market. In addition, it increases the choices for both suppliers and consumers. Electronic commerce will continue to play its significant role in modern society. It will keep on improving commercial connections between individuals and businesses at national, regional and global markets, as well as keep stimulating internationalization and globalization of economy and production by creating opportunities such as the free movement of goods, services, money, technology, information and communication. In addition, it offers the opportunity to generate new challenges for potential market growth in the future. (Fangfei Wang 2010, 6-7.)

### **3.3 Alibaba Group**

With a mission to make it easy to do business anywhere, Alibaba Group is a marketplace, a search engine and a bank, all in one. In addition, Alibaba Group provides a range of services, such as logistics, and cloud computing solutions, which all combined have hundreds of millions of users. With this astonishing number of users, Alibaba is China's – and also the world's – largest online commerce company. In addition to Alibaba Group's three main sites Taobao, Tmall and Alibaba.com, it operates multiple other websites and businesses, which all form together the giant known by the name Alibaba Group. (Alibaba

Group 2015b). In order to offer a better understanding of what the giant does, Alibaba Group is introduced as following on their company website:

We provide the fundamental technology infrastructure and marketing reach to help merchants, brands and other businesses that provide products, services and digital content to leverage the power of the Internet to engage with their users and customers. Our businesses are comprised of core commerce, cloud computing, digital media and entertainment, innovation initiatives and others. Through investee affiliates, we also participate in the logistics and local services sectors. (Alibaba Group 2016b.)

In 1999, a Chinese English teacher named Jack Ma started a business, which would later grow to be known as Alibaba Group. The Hangzhou based company's first website, English-language Alibaba.com, was established during the same year. The purpose of Alibaba.com was to make it easier for small businesses to get connected, and above all, to do business more efficiently on both, Chinese domestic market and international markets. According to Ma, he chose the name Alibaba since it is easy for everybody to pronounce no matter where they came from –much like the different platforms of Alibaba Group have been made effortless and easy for anyone to use. (Alibaba Group 2016b.)

Today the whole Alibaba Group consists of 10 main businesses, which all form an ecosystem of marketplaces and services, including banking solutions (Alibaba Group 2016c). By the end of September 2016, Alibaba Group's platforms had 439 million mobile monthly active buyers. This means that there were 439 million buyers who were actively using only Alibaba Group's mobile solutions, excluding the desktop computer users. (Alibaba Group 2016a.) The 10 main businesses of Alibaba Group are briefly introduced in subchapter 3.3.1 of this thesis, in order to offer a better understanding of the company and the ecosystem it provides. Almost all of these 10 main businesses operate their own affiliates, which will not be further studied. The main platform for the subject of this thesis, Alibaba.com, will be introduced after the 9 other businesses.

The core business of Alibaba Group is e-commerce in China via its two main online commerce platforms, Taobao and Tmall. Taobao is Alibaba Group's largest business. It is a C2C marketplace much like eBay, and it makes profit by selling advertisement, similar to Google. Tmall is a B2C premium marketplace providing Chinese domestic brands as well as international brands, aimed at the middle class in China. (Investopedia 2014.) To offer an understanding about the sales that Taobao and Tmall generate, in 2015 during the Double 11 Online Shopping Festival (much like Black Friday in the US with lot of discounted products) the sales of the two marketplaces reached to US\$14.3 billion, in just 24 hours (Berke 2015). In 2016 the corresponding number was US\$17.8 billion, also generated in just 24 hours (Alizila 2016).

The total revenue of Alibaba Group was US\$12.3 billion in 2015, and by the end of the second quarter of 2016 (ended September 30th 2016), it reached US\$5.1 billion (Alibaba Group 2015a; Alibaba Group 2016d). By the end of the corresponding quarter in 2015, the revenue was about US\$3.5 billion (Alibaba Group 2015a). Needless to say that e-commerce is booming in China.

On 19<sup>th</sup> of September 2014, Alibaba Group released its Initial Public Offering (IPO) through New York Stock Exchange (NYSE: BABA), offering 14.9 percent of the company. The IPO was considered particularly significant for its all-time high value, which was US\$21.8 billion, as well as the fact that it was listed for a company of Chinese origin. (Chen, Mac & Solomon 2014.)

In 2016, the 5 major shareholders of Alibaba Group were (Investopedia 2016g):

1. Softbank (32.4 percent)
2. Yahoo (16.3 percent)
3. Jack Yun Ma, Executive Chairman (7.8 percent)
4. Joseph C. Tsai, Executive Vice-Chairman (3.2 percent)
5. Silver Lake Affiliated Entities (2.2 percent)

### 3.3.1 Alibaba Group's businesses

As previously mentioned, Alibaba Group comprises of 10 main businesses. The below Table 3 briefly presents 9 of the main businesses, and Alibaba.com will be introduced in subchapter 3.3.2.

Table 3. Alibaba Group's businesses (Alibaba Group 2016c)

<b>Taobao</b>	Taobao, launched in 2003, is China's largest mobile C2C commerce platform which includes hundreds of millions of products and services.
<b>Tmall</b>	Launched in 2008, Tmall is China's largest B2C platform for international and domestic brands and retailers.
<b>Juhuasan</b>	Juhuasan (launched 2010) is a sales and marketing platform for flash sales.
<b>AliExpress</b>	Targeted at consumers worldwide, AliExpress is a global retail marketplace founded in 2010.
<b>1688.com</b>	1688.com online wholesale marketplace was launched in 1999. It connects buyers and sellers in China.



<b>Alimama</b>	Alimama (launched 2007) is a marketing technology platform that offers online marketing services.
<b>Alibaba Cloud</b>	Alibaba Cloud, launched in 2009, develops platforms for cloud computing and data management.
<b>Ant Financial</b>	Ant Financial provides financial and banking services for small enterprises and consumers.
<b>Cainiao</b>	Cainiao Network is a logistics data platform operator, which provides real-time access to data for both consumers and merchants.

As presented in the previous subchapter, the C2C marketplace Taobao and B2C platform Tmall are Alibaba Group's largest businesses, which both have millions of users. Juhua-san is a sales and marketing platform for flash sales, where Taobao and Tmall merchants can promote their brands and products by offering special discounts and promotional events. Targeted at consumers worldwide, AliExpress is a global B2C retail marketplace founded in 2010. The idea of the platform is to enable consumers worldwide to order products directly from Chinese manufacturers and distributors. 1688.com is a B2B online wholesale marketplace which was launched in 1999. It connects buyers and sellers in China. It works as a wholesale channel for merchants on Alibaba Group's online marketplaces, for sourcing products from Chinese domestic market. (Alibaba Group 2016c.)

The more service oriented platforms of the ecosystem include Alimama, Alibaba Cloud, Ant Financial and Cainiao. Alimama (launched in 2007) is a marketing technology platform that offers merchants on the previously mentioned Alibaba Group's marketplaces online marketing services for computers and mobile devices. It also enables sellers to do marketing on third-party websites. Alibaba Cloud, launched in 2009, develops platforms for cloud computing and data management. It provides services for supporting Alibaba Group's online ecosystem, as well as for third-party customers and businesses. Ant Financial provides financial and banking services for small enterprises as well as consumers. In addition, it operates other businesses, such as Alipay, which is a major payment platform in China. For example, Taobao purchases are paid via Alipay. Lastly, Cainiao Network is a logistics data platform operator, which provides real-time access to data for both consumers and merchants on products bought via for example Taobao. It also provides logistics efficiency information for logistics service providers in China. (Alibaba Group 2016c.) Together all these platforms (including Alibaba.com) form the ecosystem of online marketplaces and services, known as Alibaba Group.

### 3.3.2 Alibaba.com

Alibaba Group's first business Alibaba.com has grown to be the most popular sourcing tool between Asian producers and European and American wholesaler and retailer businesses. In about 17 years, Alibaba.com has become the leading platform for first time small-scale sourcing, and for small and medium sized enterprises, who are just entering Asia and might not yet be familiar with the market, and have not established a network of contacts within the area. The online marketplace focuses on B2B e-commerce and wholesale partnerships. The English-language site works as a wholesale platform between importers and exporters from more than 200 countries around the world. The Chinese-language portal 1688.com was developed for the purposes of domestic B2B trade in China. (Alibaba.com 2016; Alibaba Group 2016c.)

The buyers on Alibaba.com are typically trade agents, wholesalers, retailers, manufacturers and SMEs engaged in the import and export business and global sourcing. The sellers are usually manufacturers, trading companies and combinations of both, as well as wholesalers and distributors located mostly in China. (Alibaba.com 2016.) From the buyer's point of view, Alibaba.com is used for finding suppliers with desired products, or even raw materials. The buyer can either search for products or suppliers with keywords, or browse different product categories offered on the website. Based on this search or browsing, the buyer can choose different products or suppliers for closer observation, and contact the sellers after finding prospective options. The buyer can examine suppliers' profile pages for finding out more details about the seller, as well as the products they sell. Alibaba.com offers different types of verifications for the suppliers, in order to make it easier for buyers to find reliable partners. In addition, Alibaba.com provides the option to use a purchasing agent free of charge. The purchasing agent helps the buyer with finding products and negotiating the terms with the sellers.

The image on the next page displays the front page of Alibaba.com (Figure 6). As displayed in the image, the different sourcing options can be accessed directly from the front page. The search bar for searching for products or suppliers is located on top of the page, and the offered product categories can be found from the left side of the page. The buyer can also browse the suggested campaign products advertised on the front page. The far top of the webpage contains simple instructions for using the platform. (Alibaba.com 2017.)

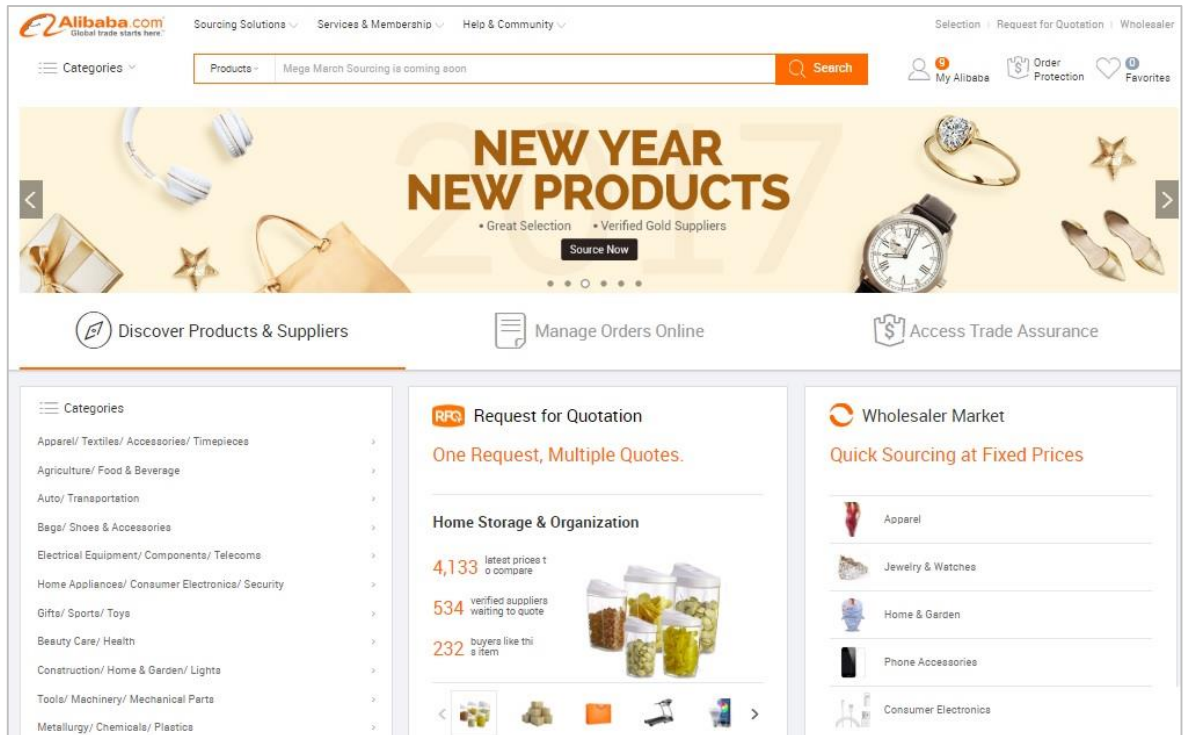


Figure 6. Front page of Alibaba.com (Alibaba.com 2017)

As the Alibaba.com website is completely free of charge to use, it is a low-cost option for many SMEs worldwide for finding partners and suppliers. Although Alibaba.com offers some added value services against payment, such as the option to receive quotations faster, the buyer can easily operate on the website without paying anything extra. This is the reason why it is a practical and efficient global sourcing tool for SMEs worldwide.

Alibaba.com and its utilization is further studied in the guidebook found from the appendices of this thesis (Appendix 1). The next chapter will introduce the process of writing the guide and take a deeper look into its contents, offering more details about Alibaba.com.

## **4 Project description: Alibaba.com sourcing guide**

This chapter focuses on presenting the process of putting together the Alibaba.com sourcing guide for Finnish small and medium sized enterprises (Appendix 1). The main objective behind the project of assembling the guidebook was not only to offer guidance for the Alibaba.com sourcing process, but also to offer a better understanding of Alibaba Group as a whole. This chapter will introduce the author's idea behind the project, how the project was planned, discuss why certain themes were selected and how information was gathered, as well as describe the final product and its structure, and present a few development ideas for possible future updates. To simplify the structure of this chapter, the main themes it includes are:

1. Project starting point
2. Project plan
3. Project structure
4. Project methodology and progress
5. The final product

### **4.1 Starting point**

The idea of a sourcing guide first came to the author's mind when she started her internship at a Chinese sourcing company in the beginning of year 2015. This was the first time that she was introduced to the sourcing business in China, and she did not have much knowledge about the field nor how to start sourcing for products. The Chinese company the author was working for mainly used Alibaba.com or some other similar websites for sourcing purposes. During that time the author was not familiar with Alibaba Group and did not even know a website such as Alibaba.com existed, as she had just moved to Shanghai. At this point she hoped she had a compact guide with all the necessary information about both sourcing and Alibaba.com.

After the six month internship was over, the author was able to obtain a permanent position at the sourcing company, and stayed in Shanghai. This enabled her to gain valuable experience on factory and product sourcing in China. Sourcing on Alibaba.com was part of her daily work routine and she had developed her own sourcing processes. During almost two years the author had learned through experience what not to do on Alibaba.com, and what the best ways to operate on the website were. The author then realized that she had rare know-how about China-based sourcing that could be exploited by many small and medium-sized enterprises in Finland. This was the first time she thought about writing

a sourcing guide herself. However, as sourcing can be a very broad concept, the author decided that the guide should focus on Alibaba.com based sourcing only.

Before the author started working on her own guidebook she had read Alibaba.com guides and tips written by other authors, but she had not found comprehensive guidance written by a Finnish person, nor in Finnish language. For this reason, the author saw the need for a manual targeted especially for Finnish small and medium-sized enterprises. However, she decided to write the guide in English, as the language used on Alibaba.com is English and thus it made more sense to offer information in the same language, especially in the cases of some examples used in the guide. In addition, many parts of the guidebook are not country specific and can be exploited in small and medium-sized enterprises around the world.

## **4.2 Project plan**

As the idea of an Alibaba.com guide developed in the author's mind, she started to pay more attention to her sourcing tasks at work, and make notes about small details and tips that could be added to the manual. Logically, the structure of the guide would follow the order of the same sourcing process the author used on Alibaba.com, and the themes would be selected based on this process. Having read multiple instructions online for using Alibaba.com, she decided that not only should her guide include basic information about the website, but it should also contain details that other authors had not written about. After all, she had the advantage of actually working for a Chinese company in China, with Chinese colleagues. This would be the advantage her guidebook had compared to manuals written by other authors. In order to make the planning process more clear, the author decided to make a point-by-point project plan.

Figure 7 on the next page represents the initial project plan. The first step of the plan was to define why the guidebook should be written in the first place. As previously mentioned, the author felt that she could offer unique information to Finnish SMEs about Alibaba.com based sourcing, as she had valuable work experience on the matter and she had not seen other comprehensive guides targeted for companies of Finnish origin. Naturally, the main purpose of the project was defined next, which was for the guide to function as an Alibaba.com sourcing manual, with Finnish SMEs as the main audience. The author wanted to target the guide for SMEs, since the initial purpose of Alibaba.com has been to operate as a platform for companies with limited resources. The benefits of the guidebook were stated as the following: a compact manual with the most recent and new information

which other guides do not have, targeted for Finnish SMEs written by a Finnish person living in China.

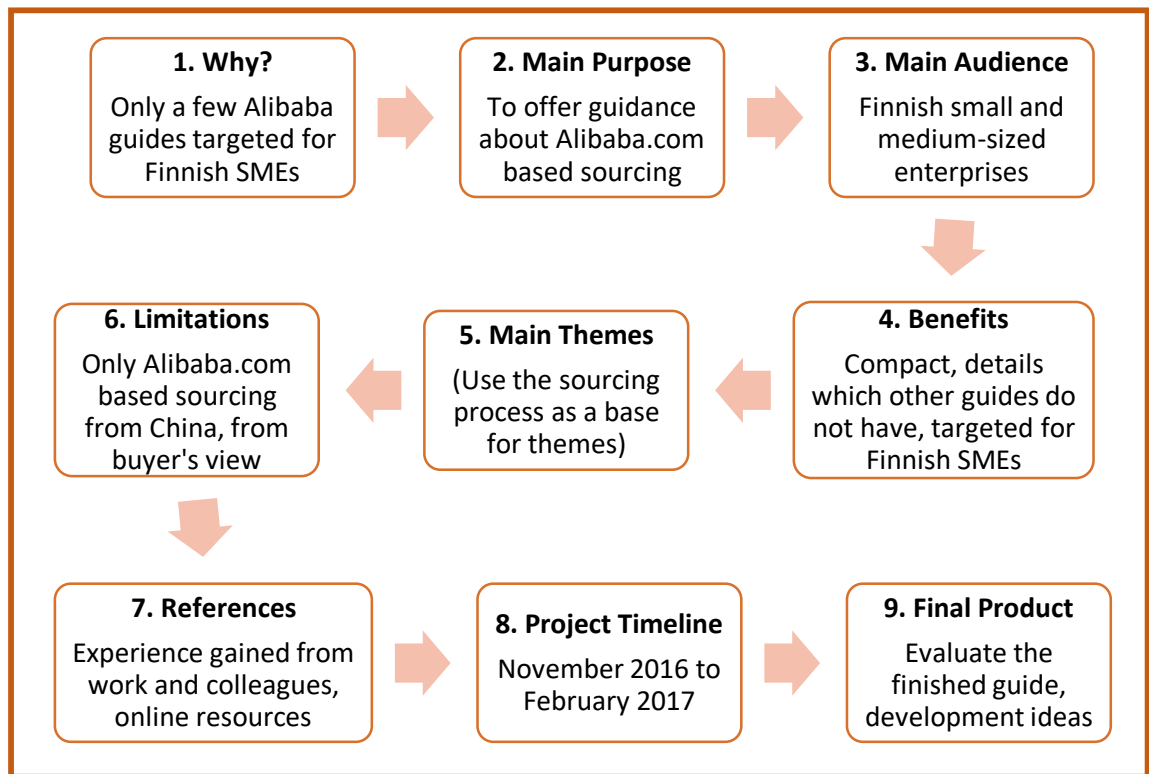


Figure 7. Initial project plan for the Alibaba.com sourcing guide

The main themes discussed in the guide would be selected based on the Alibaba.com sourcing process the author used at work. The themes and structure of the guide will be introduced in more detail in the next subchapter.

The author wanted to stress that the purpose of the guidebook was to function as a guide for using the Alibaba.com website only for sourcing purposes. The guide would not include information about sourcing or procurement in general, nor would it contain information on how to implement any sourcing processes. In addition, the guide would offer information about China based sourcing only, from the foreign buyer's point of view. The previously mentioned were the limitations the author decided to set for the project at the planning phase.

As for the references that would be used in the guide, the author felt that her work experience would be enough for offering most of the information provided in the guide. The experience she had was gained during two years via individual work as well as via team work and discussions with her colleagues. Therefore she did not feel the need to conduct

an interview for the project, as she had obtained some of the knowledge from her colleagues throughout the years she had been working with them. Other references the author planned to use were online resources, such as articles and information provided by Alibaba Group.

The author's plan was to execute the project during the end of year 2016, starting from November. The deadline was set to the end of February 2017, as the author felt that two to three months would not be enough for her to finish the guide. She also wanted to make sure there was enough time in case some alterations would have had to be made.

The last step of the author's point-by-point plan was to evaluate the final product once it would be finished. The evaluation would include the following information: how the final product turned out to be, were the set targets met, was the project executed timely and what the author would have done differently. The plan also included to come up with development ideas for the guide, in case there would be a need to update it in the future. The evaluation of the whole project and final product as well as its development suggestions will be discussed in subchapter 4.5, as well as in chapter 5.

### **4.3 Project structure**

The finished guidebook can be divided into five main themes: Alibaba Group, Alibaba.com, Alibaba.com sourcing manual, recommendations for sourcing and Alibaba.com risks. These five themes are divided into 9 main chapters, some of them with additional subchapters. This chapter displays the structure of the guide's 9 chapters and discusses why certain concepts were chosen to be included. Figure 8 on the next page displays the main themes introduced in the guide.

The book starts off with an introduction chapter which sums up the purpose of the guide and its contents. The introduction chapter is followed by an overview of Alibaba Group, as the author wanted the guide to contain general information about the company and its businesses before introducing the Alibaba.com website and its properties. The author felt that Alibaba Group was mostly known as some big Chinese company in her home country Finland, and many people lacked the awareness about what the company actually does. The brief company introduction would enable the reader to comprehend how big of an enterprise Alibaba Group actually is, and therefore gain the reader's interest. The company introduction contains the same details about Alibaba Group as the chapter 3 of this thesis, which was the basis for writing the introduction in the guide. The introduction includes financial details about Alibaba Group, such as its sales and profits, and it briefly presents

the 9 main businesses Alibaba Group operates in addition to Alibaba.com. Online references, such as Alibaba Group's company website and annual reports, as well as news articles were used in the writing process.

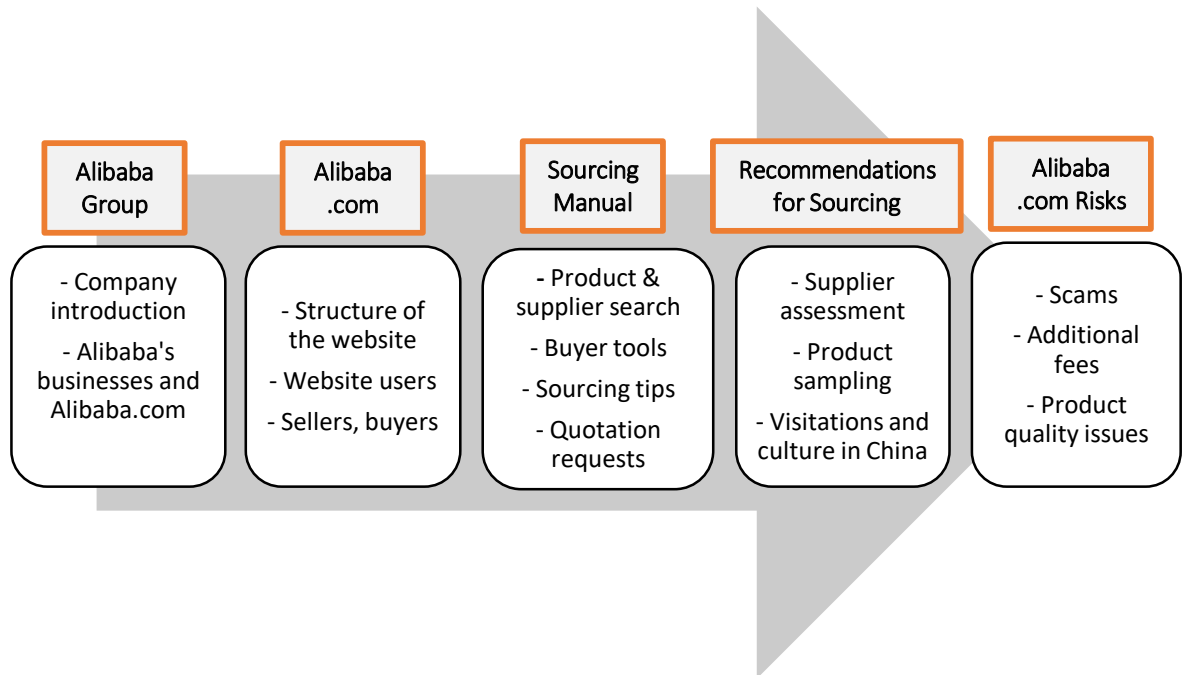


Figure 8. Alibaba.com guide structure and its five main themes

After presenting details about Alibaba Group, the guide continues to introduce the Alibaba.com website in more detail. This third chapter comprises of information about the website structure and its users, and introduces the main purpose of using the platform for the two main user types. The two main users on Alibaba.com are buyers and sellers, and the whole guide is written from the point of view of a Finnish SME. In general the buyers on Alibaba.com are foreign or local Chinese companies, such as SMEs, trade agents, wholesalers and retailers sourcing for suppliers and products, and the sellers are Chinese suppliers, such as manufacturers, trading companies, or wholesalers and distributors. The objective of the guidebook is to offer information about sourcing from Chinese manufacturers and trading companies. The guide defines manufacturers as factories that manufacture products themselves, and trading companies as businesses that sell products manufactured by others. Both are introduced as options for a Finnish SME to use. The author used a few online references in the writing process, and in addition she wrote information based on her own experiences of Alibaba.com and its sellers.

The fourth chapter introduces Alibaba.com sellers on a deeper level and presents how to distinguish between the different supplier types and how to look for Alibaba.com issued verification information about the sellers. The two supplier types discussed in the chapter



are manufacturers and trading companies. Both types have their own benefits, which are introduced in the chapter. Simply put, manufacturers often offer a lower price, but they may not be able to offer good customer service for foreign buyers, whereas trading companies have staff trained to do business with foreigners, but at a higher cost. A supplier can also be a combination of a manufacturer and a trading company, and this combination would be the best choice for an SME, as they often offer lower prices than trading companies, with the needed expertise. As the author was employed for a Chinese sourcing company similar to a trading company, part of her work duties included to find only manufacturers to cooperate with. For this reason she had gained experience on distinguishing between sellers, and the chapter was written mostly basis on this. The chapter also introduces the verifications Alibaba.com suppliers can obtain in order to increase their perceived reliability. The different types of verifications are issued by Alibaba.com, and the suppliers can present certain icons on their profile pages. For this section of the chapter the author obtained information from Alibaba.com website.

The fifth chapter moves on to discuss the different sourcing methods that can be used on Alibaba.com. The chapter consists of information about the basic usage of the Alibaba.com website and its properties from the buyer's point of view. It contains guidance for product and supplier search, how to browse product categories as well as how analyze product pages, and how to exploit the buyer tools offered by Alibaba.com, such as the use of a purchasing agent. It also discusses how the suppliers can be contacted. This section was also written mostly based on the author's work experience. She had used all of the introduced methods at work, and decided to try all once again at work for writing down each one's features and benefits. Starting from the fifth chapter, the guide follows the structure of a basic sourcing process which is introduced in chapter 7 of the guide, and later in this chapter of the thesis.

After presenting how to search for products and suppliers, the guide continues to its sixth chapter which discusses how to contact and obtain quotations from suppliers. It includes suggestions about information that should be added to the quotation requests (inquiries) and what type of language is recommended to use when communicating with the Chinese suppliers. The author decided to keep track of her inquiries at work in order to find out what type of language is the best to use. She had already realized before, that it was best to keep the inquiries as short and simple as possible, in order to avoid misunderstandings. She had noticed that the shorter inquiries she wrote, there was a higher chance for the supplier to reply and provide all the requested details in one reply. The author noted that the best way to ask questions was to number them and ask them point by point. She also wrote down the most important questions that should be asked from the supplier upon

making initial contact. The below figure 9 displays the recommended inquiry format, as well as presents the questions that are suggested to be asked about the desired product.

Hi,

My name is xxx from a company called xxx. Our company is located in Finland and we are specialized in the retail of all kinds of t-shirts on the Finnish market.

Could you please send us a quotation for your item xxx. Please include the following information:

1. Please quote based on your MOQ
2. Please advise sample cost
3. Please advise production time
4. Please send additional product photos
5. Please quote your FOB price in USD and inform other payment terms

Thank you.

Best regards,

Name  
Company  
Email  
Website  
Phone

Figure 9. Recommended inquiry format

The seventh chapter contains general recommendations for Alibaba.com sourcing, as well as introduces the author's suggested sourcing process. Figure 10 on the next page is used for displaying the structure of the sourcing process, and it is presented in the guidebook alongside with brief introductions per each step. Simply put, the sourcing process starts off from product search, followed by the investigation of the prospective product and its supplier, who is then contacted by the buyer for a quotation request. The buyer can and should contact multiple suppliers simultaneously, which leads to choosing the best alternative for a supplier, sampling products and a possible visitation, as well as negotiations with the seller. The next step is placing the order and making payment as agreed upon with the supplier, after which the goods are shipped and the buyer should track logistics if possible. Upon receiving the goods, the buyer should inspect them carefully and report any inaccuracies or faulty products to the seller, and take the required action. This is where the basic process ends. The gray boxes displayed in the figure present the case if the buyer plans to place regular orders to the same supplier, and/or the buyer did not visit the supplier before placing the first order. The author wanted the information presented in the guidebook to follow the structure and order of the sourcing process.

The author wrote the recommended sourcing process on the basis of the sourcing process her company used, and which had turned out to be the best way to operate. As the

author was working in China and her company's clients were in North America, she had to change the process to be from the point of view of a Finnish buyer.

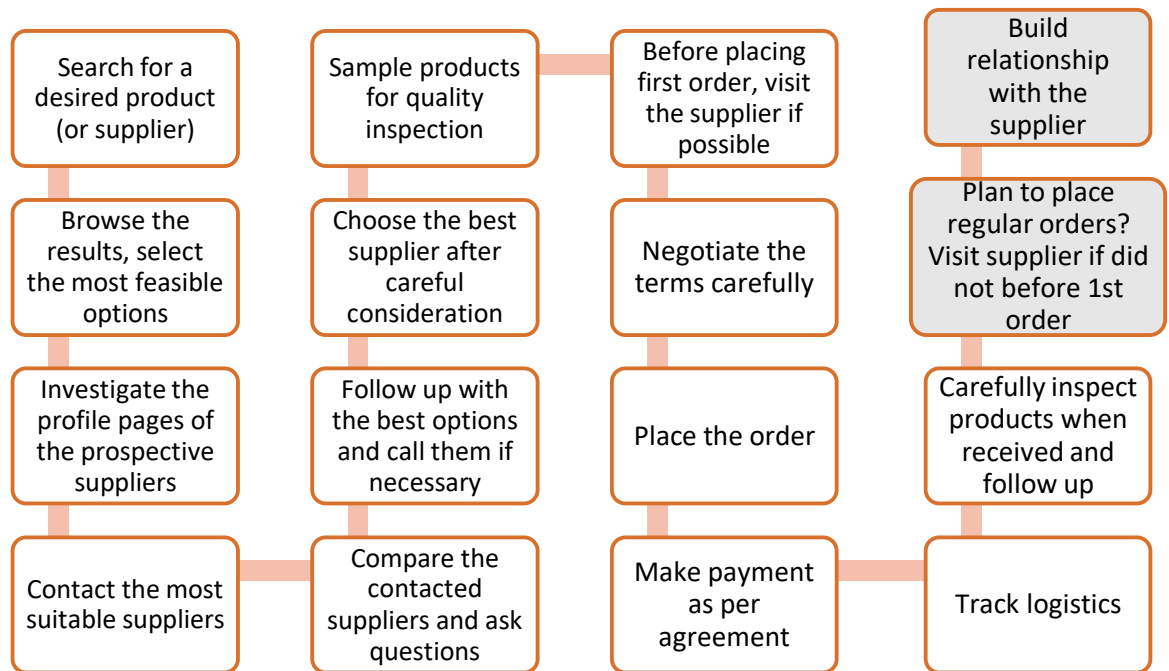


Figure 10. Recommended Alibaba.com sourcing process

After displaying the recommended sourcing process, the seventh chapter continues with general recommendations for sourcing on Alibaba.com. The tips or recommendations represented are associated with how to operate with the supplier as the buyer proceeds forward on the sourcing process. The topics discussed are involved with supplier comparison and research, requesting information from suppliers, product sampling, careful consideration of whether to use a certain supplier or not, supplier visitations and getting to know the Chinese culture. As for the references of this section, the author used Alibaba.com sourcing guides written by two other authors, as well as her own knowledge. The author wanted to introduce these general recommendations in their own chapter in order to stress the importance of taking them into consideration in the sourcing process.

As the author felt that it is important for the reader to understand some aspects about the business culture in China, she decided to add a cultural section in the chapter. The author wanted the introduction to Chinese culture to be as brief as possible, but at the same time comprehensive enough, which can be a bit challenging to achieve, as Chinese culture is very complex. The author decided that only the most important and relevant topics should be studied in the guide. In general, the section discusses how to build a successful business relationship with a Chinese supplier, and what are the most important concepts the Finnish company should be aware of. As relationship building is very important in China,

this is stressed in the chapter. The concept of relationships in China is called guanxi, which is further studied in the section. In addition, the chapter contains tips on how to achieve a guanxi relationship with a Chinese person, and how to maintain it. The references used in the chapter were articles about Chinese business culture in general, and articles on what people had faced when doing business with Chinese people for the first time.

The eighth chapter contains information about the risks that the buyer should take into account when using Alibaba.com. The chapter introduces examples of scams that may be involved, and discusses how the buyer should safeguard oneself from these scams. The most common scams presented in the chapter are involved with product quality and contract issues, product certifications and additional fees that may apply. There may be risks involved with shipping as well, but as shipping is handled by a third party, the author decided not to discuss the risks involved with logistics in the guidebook. For this eighth chapter the author had to do a bit more research, as she was not well familiar with all the risks that may be involved with Alibaba.com sourcing from another country, as she had only sourced for products in China, and she could easily find out whether a supplier could be trusted or not. This was because she had easy access to visit the suppliers in China with her Chinese colleagues, before making any decisions to cooperate with them. In addition, often her Chinese speaking colleagues handled the negotiations with the suppliers. The author did some research on Alibaba.com risks, and used articles and other sourcing guides for references in the chapter.

The last ninth chapter of the guide contains conclusions. The conclusions were summed up as the most important topics that should be taken into account in Alibaba.com sourcing. The first topic discusses the importance of careful supplier assessment. The author wanted to stress that by doing careful research about the supplier, the buyer can avoid harmful scams or other mishaps. The next step is to try to build a relationship with the Chinese supplier, since relationships play a significant role in Chinese business culture. Thirdly, the buyer should always sample products before placing any orders. The samples display product quality as well as the supplier's capabilities. The last conclusion is to make realistic plans and calculations before starting a cooperation with a Chinese supplier. For an SME with limited resources sourcing from China can be risky, especially if not planned properly. In addition to other factors, the calculations should include travel costs, cost associated with quality assurance, damage control costs, consultancy costs (if required) and supplier changing costs. After making proper plans and calculations the decision to source from China can be made. Finally according to the guide, it may turn out to be that

Alibaba.com sourcing is not the best solution for some SMEs. The conclusions were written on the basis of what had already been discussed in the guidebook's other chapters.

#### **4.4 The final product**

The author wrote the product, or in other words guidebook in about 4 months, which included time spent on research and reading, in addition to writing. The project was begun in November 2016 and finished in February 2017. As mentioned in the previous chapter, the author did research for some sections of the guide at work, since the topics were related to her every day Alibaba.com sourcing routine. Other parts she mainly wrote based on her work experience, and she used internet references which included articles and a few sourcing guides written by other authors. The author felt that these resources were enough to build the reference base.

As there were many topics to be included in the guidebook, the final version of the guide turned out to be longer than the author had intended to. Initially the author had planned to add a chapter about an example case of importing a product to Finland, but she decided to leave it out as the chapter would have mainly included information about the guidelines set by Finnish Customs, and therefore would not have been directly involved with Alibaba.com. It is worth mentioning, that Alibaba.com itself never acts as a seller or shipper, and their website does not include any guidelines for this. In addition, import procedures are often country specific, and the details are quite effortless to find from the Finnish Customs' website. The author had also planned to add a section about payment methods with Alibaba.com suppliers, but as these are negotiated with the supplier, the author decided not to include the topic in the guide.

The author is satisfied with the overall result of the guide. In the author's opinion, the finished guidebook contains the most important and relevant information that a Finnish SME should take into account when starting Alibaba.com sourcing for the first time. The author would have wanted to make the guide even more specific for Finnish SMEs, but as most of the Alibaba.com sourcing instructions are not country specific, she could not add more details targeted especially for Finnish companies. For this reason she initially planned to add the chapter for importing a product to Finland, in order to add more Finland specific instructions. However, adding an import chapter could be one of the development ideas for the sourcing guide. In addition, the payment methods could also be introduced, even if they are supplier specific and negotiated case by case. The risks involved with each payment method could be studied as well. Further future development ideas will be presented in the next chapter.

## **5 Discussion**

The purpose of this project-based thesis was to offer guidance for Finnish SMEs in the use Alibaba.com for China-based sourcing, in the form of a guide. The theoretical framework functions as the research base the author studied before writing the guide, and supports the need for the guidebook. This chapter will look into the author's conclusions of the whole thesis project, and present suggestions for its future development. Lastly, in the final subchapter the author assesses the whole project and discusses the learning outcomes she gained throughout the writing process.

### **5.1 Conclusions**

This section will introduce the author's conclusions on the basis of the theoretical framework. In addition, it will discuss the aims set for this thesis and if they were able to be reached.

It is clear that electronic commerce will have an even greater impact on peoples' lives and the way business is conducted around the world in the future. China is the leading country on the field of e-commerce, thanks to the low labor costs, the huge amount of population with endless demand for products and services, and Alibaba Group. Many other countries have yet to adapt to the digital world of commerce on the same level China has, however businesses around the world are already able to exploit the online marketplaces Alibaba Group has to offer. As a company's competitiveness is formed on the basis a competitive supply chain, businesses worldwide have chosen to exploit Alibaba.com in their global and China-based sourcing operations.

Many Finnish SMEs have yet to seize the opportunity to exploit the low-cost markets in their sourcing operations. As presented in the theoretical framework, sourcing from low-cost countries such as China, has a substantial positive impact on the competitiveness of a company and on the economy. As the exploitation of global sourcing and supply chains enable businesses to buy parts and intermediate products needed for manufacturing their own products, companies are able to save costs and possibly enhance the quality of their end products. In 2016 the two largest item groups exported by Finnish SMEs were machinery and products of electrical industry. The exploitation of competitive supply chains could be valuable especially for the SMEs that manufacture items from the previously mentioned categories, as parts needed for these types of commodities are often cheaper to produce in low-cost countries. The utilization of low-cost markets could enable SMEs to

manufacture products at a lower cost, enabling them to produce high quality, competitively priced commodities.

The production of competitive products by the utilization of low-cost country sourcing could have a positive impact on the value of exports in Finnish SMEs. In 2016 about 20 percent of Finnish SMEs practiced exports, and almost the same number did imports. The ratio between exports and imports in Finnish SMEs was deficit, as exports had a value of 2.1 billion euros, and the value of imports was about 4 billion euros. For the growth of the national economy, exports should have a higher value than imports, as exports bring in money and imports take money out of Finland. As previously concluded, by the exploitation of low-cost country sourcing Finnish SMEs could have a chance to produce high quality products that could compete on other markets as well. However, increasing the imports from low-cost countries would have some effect on the value of imports.

One of the options for low-cost country sourcing is China. As discussed in the theoretical framework, China has been an important trading partner for Finland throughout the recent decades. Although labor costs have been increasing in the country and manufacturing is not as cheap as it used to be, China was still ranked as the most competitive manufacturing nation in 2016, and the labor costs still are small compared to developed countries. This is the reason why many larger Finnish companies still continue to do their global sourcing from China, and it can be seen in the import and export values between the two countries, as during the past years the trade balance has been deficit. In order to make efforts to level out the difference, Finnish companies of all size could invest in technological development and cleantech-field, as there is demand for know-how on these fields in China.

Even if Finnish SMEs and the Finnish economy on the whole could benefit more from low-cost country sourcing, there are multiple reasons why many Finnish SMEs have not exploited low-cost countries in their sourcing operations. The most common reasons being the lack of resources, networks and knowledge about international markets. In addition, China phenomenon is not a new concept, and during the past decade Finnish people have worried that their jobs are taken away to China. However, nowadays internet provides endless amounts of information for free. The rise of electronic commerce has decreased the distance between buyers and sellers, and internet has enabled companies around the world to connect with each other. Internet has changed the way business is conducted, and will still continue to. As presented in the theoretical framework, Finnish SMEs have already exploited digital services in their operations in order to reach new customer groups, partners, and to offer better service to clients. The utilization of e-commerce

has proven to improve a company's competitiveness and profitability, and the use of Alibaba.com in global sourcing operations could lower the threshold for Finnish SMEs to enter the international markets. By exploiting Alibaba.com online marketplace Finnish SMEs could exploit the competitiveness the low-cost markets, especially China, has to offer. As Alibaba.com is targeted especially for SMEs with limited resources, it is a viable option for SMEs worldwide to start their China-based sourcing. May it still be a rather big step especially for an SME to take, it is an opportunity to seek growth. After all, Finnish SMEs are the backbone of Finland's economy.

The primary objective of this thesis was for the guidebook to offer guidance on how Finnish small and medium-sized enterprises can use Alibaba.com online marketplace for China-based sourcing, and operate on the website for finding products and suppliers. The objective was reached. The initial project or guide can be found from the appendices of this thesis in Appendix 1, and the process of making the guide and its structure has been introduced in chapter 4. The objective was able to be reached thanks to the comprehensive research conducted prior to writing the guide, and the author's personal interest, experience and knowledge about the topic. The guide can be used by Finnish SMEs that are interested in starting to use Alibaba.com, but are not yet familiar with the website and its features. Based on the author's work experience on using Alibaba.com, she can state that the guide contains the most relevant topics an SME should know before starting to use Alibaba.com.

The secondary objective of the thesis was for the theoretical framework to support the need and purpose of the guide, as well as offer background information for the project. The secondary objective was also met. The author did comprehensive research on the topic, and the theoretical framework contains recent details about the situation of internationalization in Finnish SMEs. Based on the information presented in the theoretical framework the author concluded the following: by exploiting low-cost countries in sourcing operations, Finnish SMEs could produce competitive products in high quality, which could be exported to other markets. Alibaba.com could be used as a global sourcing platform for finding suppliers and products from China. Although the China phenomenon is not a new concept, the internet has changed the way business is done, and low-cost countries are easier to reach and less resources are required. On the basis of this conclusion, the author states that the Alibaba.com guide is useful and it can be exploited by Finnish SMEs.



## 5.2 Future development

The significance of internet and electronic transactions will grow to even larger proportions in the future, and it can be sensed already in China. Millions of people use the services provided by Alibaba Group in their daily lives, and the ecosystem is already changing the way business is conducted. However, as the internet and e-commerce are rapidly developing, it can be challenging to keep up with the changes. This affects the guide conducted for this thesis. Some of the information and guidelines it contains about Alibaba.com may eventually expire, due to the fact that websites are updated and developed continually. Alibaba Group is known for valuing the importance of customer service, and most likely Alibaba.com will get updates and improvements in the future, in order to serve its users even better than it does now. However, the main idea behind Alibaba.com as a SME sourcing tool will most likely stay the same, and the website will only improve to be even more user friendly.

Business in China has always been about relationships, but nowadays a shift towards more loosely knit business relations can be seen, due to the rise of internet and new generations. As the importance of e-commerce is growing, in the future there may not even be the need to form a relationship with a business partner, or even know the partner. Moreover, there may not be a need to carefully check every supplier on an online marketplace. It could be that computers will do the search automatically based on the buyer's requirements and offer very precise information as a result, without the need for the buyer to do research. The previously mentioned changes are however predictions for the long run.

For further developing the guide in the near future, it could contain detailed information about importing a product to Finland, as previously stated in this thesis. In addition, it could include instructions for shipping and logistics, and which freight forwarders would be suggested to use. It could also discuss the most common payment types and which are suggested to use with Chinese suppliers. Of course, the guide would then need to discuss the risks involved with the new themes, such as payments. The guide could also be combined with some of the themes presented in the theoretical framework, so that the guide itself would contain the justifications for its need and purpose. The financial details about Alibaba Group will expire, and these would need to be updated. In addition, Alibaba Group will most likely grow even more in the future and own even more different types of businesses. In order to offer the most recent information about Alibaba Group and Alibaba.com, the details would need to be updated frequently.

### 5.3 Project assessment and learning outcomes

This thesis was written purely due to the author's personal interest in Alibaba and Alibaba.com based sourcing. The whole Alibaba Group and its online ecosystem had grown to be a big part of the author's life during the two years she had lived in China prior to writing the thesis. As the author used Alibaba.com daily as part of her work duties, she decided that she should write a guide targeted for Finnish SMEs. Ever since the beginning of the project the author had a clear vision on how the guide itself would turn out to be, but the theoretical framework turned out to be more demanding than the author initially thought.

As presented in the thesis, the theoretical framework contains information the author researched prior to writing the guide. However, as the author did comprehensive research on multiple topics, she had trouble deciding which topics should be included. The author decided to start the writing process from the guide itself, since it felt more natural for her. Eventually as she proceeded on the project, she began to perceive the structure of the theoretical framework as well, and determined that its purpose would be to support the need for the guidebook. The author set the main themes as Finnish SMEs and internationalization, and e-commerce and Alibaba. The author would have wanted to study Finnish SMEs' trade with China, but as there was no information available about the topic, the section discusses the China-based trade in Finnish companies of all sizes.

Framing the contents of the two themes caused the author some struggling. Probably the theoretical framework would not have needed to study the most imported and exported product categories in Finnish SMEs and between Finland and China, but as she did research she became more and more interested in details. The author wanted to make the guide as compact as possible, but at the same time comprehensive enough to make sure that all the most relevant information about Alibaba.com sourcing was included. The author feels she was able to achieve this. The author learned how to handle large amounts of material more efficiently and how to set limitations to research. The theoretical framework contains very different information than the guide itself, and therefore the author read through a lot of material in order to write the whole thesis. In the end, the author is satisfied with both, the theoretical framework and guide.

Lack of time also caused some difficulties to the author along the process. The author was living and working in Shanghai during the time she was writing the thesis, and balancing between work, spare time and thesis was demanding, as work hours in China can be a bit hectic at times. Despite the few obstacles the author faced during the thesis project, she is

happy with the end results and the fact that she was able to finish the thesis by the deadline she had set. In addition to enhancing her professional skills, the thesis project taught the author how to schedule, plan and manage time more efficiently.

This thesis was written remotely from Shanghai, China from November 2016 to March 2017.

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## **Appendices**

### **Appendix 1. Alibaba.com sourcing guide for Finnish small and medium-sized enterprises**



Image source: Alibaba Group 2016

# ALIBABA SOURCING GUIDE

FOR FINNISH SMALL AND MEDIUM-SIZED ENTERPRISES

LAURA LUNDELL



## Table of Contents

1. Introduction .....	49
2. What is Alibaba? .....	50
2.1 Alibaba Group .....	50
2.2 Alibaba Group's businesses .....	52
3. Alibaba.com .....	53
3.1 Structure of the website .....	53
3.2 Sellers on Alibaba.com .....	54
4. Distinguishing between sellers .....	55
4.1 Supplier information .....	55
4.2 Supplier verification .....	56
5. Sourcing methods .....	59
5.1 Product and supplier search .....	59
5.2 Product page .....	60
5.3 Offered product categories .....	61
5.4 Buying Request Hub .....	62
6. Requesting quotations .....	64
7. Recommendations for sourcing .....	66
7.1 Recommended sourcing process .....	66
7.2 General recommendations for sourcing .....	67
8. Risks on Alibaba.com .....	72
9. Conclusions .....	74
References .....	75

# 1 Introduction

The aim of this guidebook is to offer information about using Alibaba.com as a China sourcing tool in small and medium-sized enterprises (SMEs). What is Alibaba.com? How to find and contact reliable manufacturers? How to distinguish between factories and trading companies? How to find products and suppliers? How to establish relationships with Chinese suppliers? What are the risks involved? This guide includes answers to all these questions and more, as well as introduces Alibaba Group as a company.

The target audience are small and medium-sized enterprises, since Alibaba.com was initially generated to serve as a trading platform for small companies with limited resources, and with small-scale sourcing needs. The guidebook can be used in SMEs of any nationality, however it is primarily made for Finnish SMEs. In 2016 many Finnish SMEs were willing to seek growth abroad, as the Finnish market is relatively limited (Malinen & Seppänen 2016, 24-27). In addition, SMEs in Finland still do not exploit the global low-cost markets in their sourcing operations as much as they should, in order to increase their competitiveness (Rönkkö 2013). The intention is also to raise awareness of Alibaba Group and Alibaba.com in general, as they still are relatively unknown in Finland and Finnish companies.

The initial purpose of this practical operations manual is to offer a comprehensive understanding on how to use Alibaba.com from the buyer's point of view. In order to offer comprehensive guidance, the manual starts off with basic instructions, which include how to operate on the webpage and where to source for products and suppliers, and how to leverage the different buyer tools offered on the site. After the basic guidance, the manual digs in deeper to what the buyer needs to take into account when dealing with Chinese suppliers, and what is the recommended sourcing process and what risks may be involved.

The author of this guidebook has a few years of sourcing experience gained in Shanghai, China. Having worked for a Chinese-American sourcing company, the author feels that she has comprehensive know-how on the usage of Alibaba.com. In addition to her own work experience, the guide has been conducted based on information and knowledge gathered from her Chinese colleagues, who all have several years of sourcing experience. Other information sources include Alibaba Group's webpages and additional materials, as well as news articles and other online references.

## 2 What is Alibaba?

*We provide the fundamental technology infrastructure and marketing reach to help merchants, brands and other businesses that provide products, services and digital content to leverage the power of the Internet to engage with their users and customers. Our businesses are comprised of core commerce, cloud computing, digital media and entertainment, innovation initiatives and others. Through investee affiliates, we also participate in the logistics and local services sectors. (Alibaba Group 2016a)*

Alibaba is a marketplace, a search engine and a bank, all in one. But that is not all. Alibaba also provides a range of services, such as logistics, and cloud computing solutions, which all combined have hundreds of millions of users. With these astonishing numbers, Alibaba is China's – and also the world's – largest online commerce company. In addition to Alibaba's three main sites Taobao, Tmall and Alibaba.com, it operates multiple other websites and businesses, which all form together the giant known by the name Alibaba Group.

### 2.1 Alibaba Group



Logo of Alibaba Group (Alibaba Group 2016a)

Alibaba Group was established in 1999 by a Chinese English teacher named Jack Ma. The Hangzhou based company's first website, English-language Alibaba.com, was established during the same year. The idea behind Alibaba was to make it easier for small businesses to get connected, and above all, to do business more efficiently on both, domestic and international markets. According to Ma, the name Alibaba was chosen since it is easy for everybody to pronounce no matter where they came from –much like the different platforms of Alibaba are effortless and easy for anyone to use. (Alibaba Group 2016a.)

Alibaba Group consists of 10 main businesses, which all form an ecosystem of marketplaces and services, including banking solutions (Alibaba Group 2016b). By the end of September 2016, Alibaba Group's platforms had 439 million mobile monthly active buyers. This means that there were 439 million buyers who were actively using only Alibaba Group's mobile solutions, excluding the desktop computer users. (Alibaba Group 2016c.) Alibaba Group's 10 main businesses are briefly introduced in this guide, since it makes it easier to understand the whole ecosystem that Alibaba Group provides. However, almost

all of these main businesses operate their own affiliates, which are not further introduced. The main platform for this guide, Alibaba.com, is introduced last.

Alibaba Group's core business is e-commerce in China via its two major commerce platforms, Taobao and Tmall. Taobao is the largest business. It is a consumer-to-consumer (C2C) marketplace much like eBay, and it makes money by selling ads, similar to Google. Tmall is a business-to-business (B2C) premium marketplace with domestic and international brand items, aimed at the middle class in China. (Investopedia 2014.) To give an idea about the sales that Taobao and Tmall generate, in 2015 during the Double 11 Online Shopping Festival (much like Black Friday in the US) the sales of the two marketplaces reached to US\$14.3 billion, in just 24 hours (Business Insider 2015). In 2016 the corresponding number was US\$17.8 billion, also generated in 24 hours (Alizila 2016). The total revenue of Alibaba Group was US\$12.3 billion in 2015 (Alibaba Group 2015), and by the end of the second quarter of 2016 (ended September 30th 2016), it reached US\$5.1 billion (Alibaba Group 2016d). By the end of the corresponding quarter in 2015, the revenue was about US\$3.5 billion (Alibaba Group 2015). Needless to say that e-commerce is booming in China.

On 19<sup>th</sup> of September 2014, Alibaba Group released its Initial Public Offering (IPO) through New York Stock Exchange (NYSE: BABA), offering 14.9 percent of the company. The IPO was considered particularly significant for its all-time high value, which was US\$21.8 billion, as well as the fact that it was listed for a company of Chinese origin. (Chen, Mac & Solomon 2014.)

In 2016, the 5 major shareholders of Alibaba Group were:

- Softbank (32.4 percent)
- Yahoo (16.3 percent)
- Jack Yun Ma, Executive Chairman (7.8 percent)
- Joseph C. Tsai, Executive Vice-Chairman (3.2 percent)
- Silver Lake Affiliated Entities (2.2 percent) (Investopedia 2016.)



Alibaba Claims Title for Largest Global IPO Ever With Extra Share Sales (Forbes 2014)

## 2.2 Alibaba Group's businesses



Taobao, launched in 2003, is China's largest mobile C2C commerce platform. The website includes hundreds of millions products and services. The users can easily communicate with retailers, as well as other consumers.



Launched in 2008, Tmall is China's largest B2C platform for brands and retailers. The shopping platform features merchandise from international as well as domestic brands, aimed at providing a premium shopping experience.



Juhuasan (launched 2010) is a sales and marketing platform for flash sales, where Taobao and Tmall merchants can promote their brands and products by offering special discounts and promotional events.



Targeted at consumers worldwide, AliExpress is a global retail marketplace founded in 2010. The idea of the platform is to enable consumers worldwide to order products directly from Chinese manufacturers and distributors.



Alimama (launched 2007) is a marketing technology platform that offers merchants on Alibaba Group's marketplaces online marketing services for computers and mobile devices. It also enables sellers to do marketing on third-party websites.



1688.com online wholesale marketplace was launched in 1999. It connects buyers and sellers in China. It works as a wholesale channel for merchants on Alibaba Group's online marketplaces, for sourcing products from domestic market.



Alibaba Cloud, launched in 2009, develops platforms for cloud computing and data management. It provides services for supporting Alibaba Group's online ecosystem, as well as for third-party customers and businesses.



Ant Financial provides financial and banking services for small enterprises and consumers. It also operates other businesses, such as Alipay, which is a major payment platform in China. For example, Taobao purchases are paid via Alipay.



Cainiao Network is a logistics data platform operator, which provides real-time access to data for both consumers and merchants. It also provides logistics efficiency information for logistics service providers in China.

## 3 Alibaba.com



Logo of Alibaba.com (Alibaba.com 2016a)

Alibaba.com can be considered as the most popular sourcing tool between Asian producers and European and American wholesaler and retailer businesses. Alibaba.com is the leading platform for first time small-scale sourcing, and for small and medium-sized enterprises, who are just entering Asia and might not yet have established a network of contacts within the area. Alibaba.com focuses on business-to-business (B2B) commerce and wholesale partnerships, and it was the first platform that Alibaba Group established in 1999. The English-language site works as a wholesale platform between importers and exporters from more than 200 countries around the world. The Chinese-language portal 1688.com was developed for domestic B2B trade in China. (Alibaba.com 2016b; Alibaba Group 2016b.)

The buyers on Alibaba.com are typically trade agents, wholesalers, retailers, manufacturers and SMEs engaged in the import and export business. The sellers are usually manufacturers, trading companies and combinations of both, as well as wholesalers and distributors. (Alibaba.com 2016b.) The seller types will be introduced in more detail later in this manual.

### 3.1 Structure of the website

As this guide is targeted for Alibaba.com buyers, it will only include the instructions of using Alibaba.com and its tools from the buyer's point of view. The seller-oriented pages and operations will be excluded, and therefore will not be further studied.

The structure of the Alibaba.com website can be divided in to five different categories:

1. Product/supplier search
2. Offered product categories
3. Buyer tools (Buying Request Hub)
4. Seller tools
5. Support pages

From the buyer's point of view, Alibaba.com is used for finding suppliers with desired products. The Alibaba.com main site is open for free browsing for everyone, however an account needs to be created, if the buyer wishes to leave sourcing requests and contact suppliers, and use the integrated instant messaging system. Creating an account is free, but the user needs to provide basic information, such as contact person name, company



name, telephone number and email address, as well as login information and a country of origin. Opening an account is simple, and a must if the buyer wishes to communicate with the suppliers. Value-added services are provided against payment. These services include such as receiving faster replies from verified suppliers. The next chapter introduces the supplier types in more detail, and also what kind of verifications the suppliers are able to obtain.

### **3.2 Sellers on Alibaba.com**

The sellers on Alibaba.com can be manufacturers (factories), trading companies or combinations of both. The manufacturers can also be wholesalers and/or distributors. As previously mentioned, this guide will only focus on Chinese manufacturers and trading companies. Manufacturers are factories usually only selling the products they manufacture, and they are highly specialized in their own field of products. Trading companies sell goods manufactured by others, and either trade many types of products from different categories, or are specialized in only one type much like manufacturers. Some of the trading companies on Alibaba.com are independent companies, and some are owned by manufacturers. (Lazazzera 2015.)

Higher costs may apply when using a trading company, and many buyers wish to do business without a middleman for this reason. However, many factories have no experience, knowledge or even resources for exporting products abroad, and in this case using a trading company may be a rational option. Especially for a foreign SME also lacking the experience in international trade. However, even some trading companies do not have the expertise, and therefore they offer no added value to the buyer, only higher costs. The combination of a manufacturer and a trading company is often a factory that has expanded their operations by not only manufacturing products, but also exporting them. This kind of partner could be optimal for an SME, if the company lacks expertise in international trade, bearing in mind, that higher costs may be involved. However, the manufacturers with export rights may also be trading products from the same category, manufactured by other factories. This is why it is important to compare the costs with different sellers and know how to distinguish between the supplier types.

## 4 Distinguishing between sellers

There are millions of suppliers selling millions of products on Alibaba.com. One would think that it is easy to find a supplier, but the hard part is to find the right one. In the end, in most cases it comes down to the costs. This is why it is important to request quotes from multiple prospective suppliers, and possibly compare the costs of trading companies and manufacturers. This is a good option for an SME that is not certain whether to use a middleman or to go directly to a factory.

### 4.1 Supplier information

The first thing to do is to examine the seller's name. The company name usually indicates if the supplier is a factory, a trading company or even a scam. The sourcing phase for suppliers and products, and also scams will be examined in more detail in chapters 5 and 8. The buyer should study if the seller's name is in par with the product category or business they offer. For example, a name such as "Shanghai Bright Trading" does not say much about the supplier, and the "Trading" indicates that the seller is a trading company. A name like "Shanghai Bright Clothing Manufacturing" is less likely a trading company, since it is limited to a certain segment of products, and the word "Manufacturing" indicates that the supplier is a factory. A name with "Import and Export Company" is always a private trading company, or a factory owned trading business.

The second step is to investigate the supplier's profile page. An example of an Alibaba.com supplier's profile page is pictured on the next page. The profile page can be viewed after the buyer has searched for a product or a supplier, and opened the supplier's Alibaba.com page. The profile page indicates information about the supplier, such as the business type. Even if the supplier is marked as a manufacturer in the profile, it can still be a trading company. That is why the supplier's whole Alibaba.com page needs to be examined carefully.

The third step is to check the supplier's main products from the profile page and also browse through their offered products from their own product categories. If the categories are limited to for example only shirts, the company could most likely be a factory. The number of employees usually separates a manufacturer from a trading company, as manufacturers often have more employees. Trading companies are generally employed by a little less or a little over 10 employees. The suppliers' have a short company introduction

in their profile, which is also worth reading through. In this introduction the sellers often inform if they do OEM, ODM (Original Equipment Manufacturing and Original Design Manufacturing) and custom labeling. These are usually signs that the seller is a factory.

**Dongguan City Hui Lin Apparel Co., Ltd.** Chat Now! Contact Supplier Start Order

This supplier has been verified onsite by world-leading inspection company, **SGS** **SGS Group**

<b>Business Type:</b>	Manufacturer, Trading Company	✓ Verified
<b>Location:</b>	Guangdong, China (Mainland)	✓ Verified
<b>Main Products:</b>	Dress, T-shirt, Pants, Hoodies, Swimwear	✓ Verified
<b>Ownership:</b>	Private Owner	✓ Verified
<b>Total Employees:</b>	51 - 100 People	✓ Verified
<b>Total Annual Revenue:</b>	2016 USD 3650683	✓ Verified
<b>Year Established:</b>	2011	✓ Verified
<b>Top 3 Markets:</b>	North America 52.86% Oceania 20.30% Western Europe 16.92%	✓ Verified

We are factory that produce women swimwear, we have ten years experience in this area. Our company established in 2004, We have our own sample team, we can design your own styles for you as your picture shows. We can make the samples as the pictures. We have 5 sample designers. And we have 20 samples workers. Our main products are women swimwear. We do OEM&ODM. And we can customize your own labels, tags, etc.

A supplier's profile page (Alibaba.com 2016c)

One option is to check whether the supplier has received verifications from Alibaba.com or a third-party verification company. However, the seller may have only some information in their profile verified. In the case of the example picture above, the company has been verified as a manufacturer and a trading company, and all their other details have been verified as well. The verifications have been obtained through Alibaba.com's and SGS Group's visits to the supplier's premises. SGS Group does product testing and factory verifications. The next chapter introduces the seller verifications in more detail.

Lastly, if the buyer is unclear whether the seller is a factory or a trading company, the buyer can contact the supplier and simply ask, although a clear answer cannot always be expected.

## 4.2 Supplier verification

The suppliers on Alibaba.com can obtain a number of different verification diplomas issued by Alibaba.com, in order to increase their perceived reliability. The five verifications

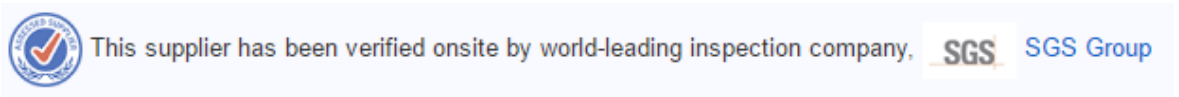
offered by Alibaba.com are: Trade Assurance, Assessed Supplier, Gold Supplier, Onsite Check and A&V Check (Alibaba.com 2016d).

Trade Assurance status may be granted to a supplier based on the supplier's qualification status and volume of transactions. The status means that Alibaba.com covers buyers with 100 percent payment protection with the selected Trade Assurance suppliers. If the seller breaches the Trade Assurance terms, which include timely shipment of products and product quality, Alibaba.com compensates the amount to the buyer. (Alibaba.com 2016d.) The suppliers with Trade Assurance can be identified with the Trade Assurance icon (displayed below).



Trade Assurance icon (Alibaba.com 2016d)

Assessed Suppliers have been verified by a third-party company, for example by SGS Group. Being an Assessed Supplier on Alibaba.com means that the supplier has been verified to supply the items they display on their website. (Alibaba.com 2016d.) Assessed Suppliers can be identified by having the below type of verification icon on their profile page.



Verified Assessed Supplier identification icon (Alibaba.com 2016d)

The Gold Supplier verification diploma is a paid for premium type membership for suppliers on Alibaba.com. It offers benefits, such as promotion and exposure. All Gold Suppliers must pass an Onsite Check conducted by Alibaba.com before obtaining the Gold Supplier status. Once the supplier is approved for the status, they can display the Gold Supplier identification icon on their profile. The number of years a member has been a Gold Supplier is displayed next to the icon. (Alibaba.com 2016d.)



Gold Supplier identification icon (Alibaba.com 2016d)

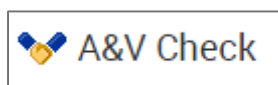
Onsite Check is a verification diploma issued to Chinese Gold Suppliers. The diploma verifies that the supplier's premises have been inspected by Alibaba.com's staff, to ensure

that actual onsite operations exist there. (Alibaba.com 2016d.) The icon below is displayed on the suppliers' profiles.



Onsite Check icon (Alibaba.com 2016d)

A&V Checked suppliers are Gold Suppliers, who have passed authentication and verification inspections conducted by both Alibaba.com and a third-party verification company (Alibaba.com 2016d).



A&V Check icon (Alibaba.com 2016d)

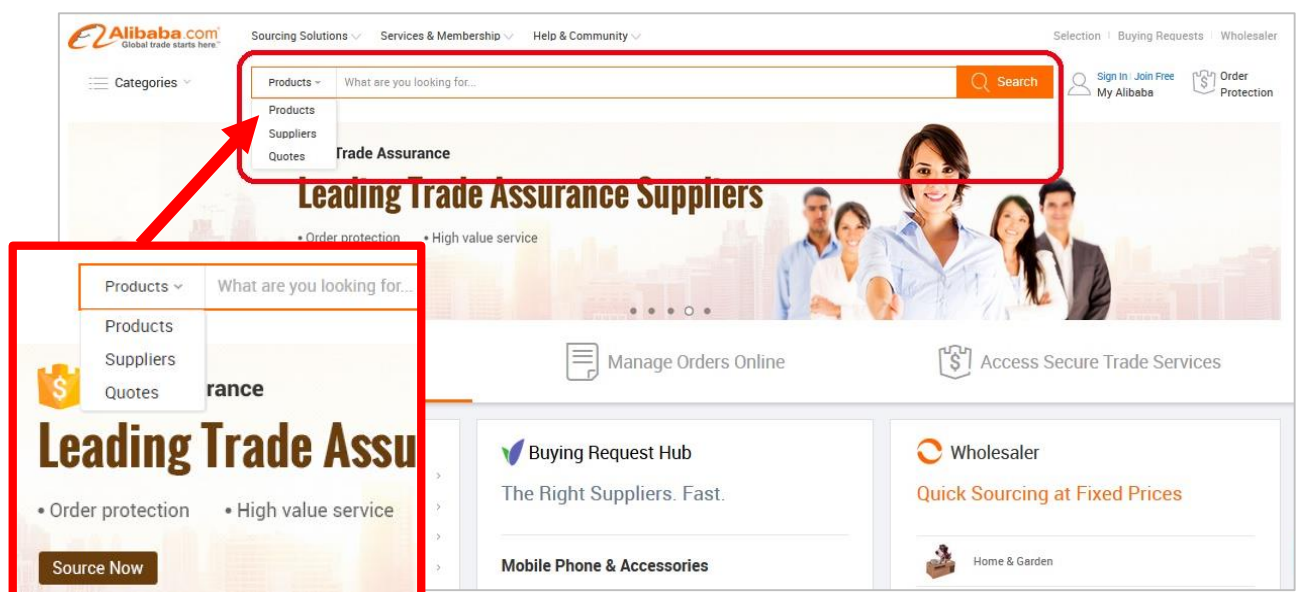
The buyer should look for the above verification icons from the suppliers' profile pages, in order to find reliable trading partners. In addition of increasing the sellers' credibility, the icons often indicate if the supplier is actively using Alibaba.com, and will most likely reply to inquiries faster.

## 5 Sourcing methods

Alibaba.com sourcing can be done by searching for products or suppliers, or by browsing the offered product categories, or by sending quote requests via the Buying Request Hub. This chapter will introduce these three Alibaba.com sourcing methods.

### 5.1 Product and supplier search

The below picture indicates the home page of Alibaba.com. The search bar is located directly on the top of the page (circled in red in the below picture). The buyer can choose from a drop-down menu if he/she wishes to search for products, suppliers or quotes.



Alibaba.com front page and search bar (Alibaba.com 2016a)

The buyer can type any type of search word, and the website will show results much like searching on Google. After typing in the desired search word, for example 't-shirt', and clicking the 'search' button, the results will show a list of products from different suppliers, or if searched for suppliers, it will list a range of merchandisers that manufacture or sell t-shirts. The buyer can then examine the list, and view each product and producer by opening their offering page. If searched for quotes, the page will display different t-shirts and indicate how many quotes have been requested for a certain item. Then the buyer can request instant quotes from the suppliers.

The buyer can filter the results by narrowing them down to as close as possible to the desired type of shirt. For example, it is possible to choose the type of apparel (men's t-shirts, plus-size t-shirts...), features and material of the shirt (100% cotton, polyester...), technics

used on the shirt (printed, plain dyed...) and type of the sleeves as well as the design of the shirt. The search result filter options depend on the searched item. If searched for suppliers, the results can also be narrowed down to certain types. The suppliers can be filtered for example by the top 3 markets they sell to, their total revenue, location and number of employees, as well as by certificates issued to the supplier. The filter options for quote search are very similar to the options for product search.

The search method is optimal for a buyer who has a clear understanding of what he/she is looking for, and is sourcing for a very specific type of item or supplier. The search bar enables the buyer to type in very detailed keywords, which can be essential for finding a product with certain specifications.

## 5.2 Product page

After searching for a product and browsing the result list, the buyer can open a product page for the desired product. The product page naturally includes information about the product, and the seller's contact information. It also displays what verifications the supplier has received and the available payment options. The payment options will not be further studied in this guide, since they are always negotiated with the seller. The product page also displays information such as Minimum Order Quantities (MOQs), the selling price and applied incoterms. However, these rarely are the actual prices and the buyer should not rely that the information about price and selling terms are correct. In most cases the product page pricing is only indicative. The buyer should always contact the seller to receive correct information, and therefore be able to gather a list of potential trading partners. The below picture displays an example of a supplier's product page on Alibaba.com.

The screenshot shows a product page for a white t-shirt. On the left, there is a large image of a man wearing a white t-shirt, with a 'ZOOM' button and a 'View larger image' link below it. Below the main image are four smaller thumbnail images of the t-shirt from different angles. At the bottom left, there are social media share icons for Facebook, Twitter, LinkedIn, and Pinterest, along with an 'Add to My Favorites' button.

On the right side of the page, the product title is 'China manufacturer wholesale blank men white fashion t-shirt'. Below the title is a 'Quality Choice' badge. The 'FOB Reference Price' is listed as 'US \$5.2 - 7.3 / Piece' with a '100 Piece/Pieces per design per color for blank t-shirt (Min. Order)'. The 'Supply Ability' is '50000 Piece/Pieces per Month for blank t-shirt' and the 'Port' is 'Shenzhen'. There are two buttons: 'Contact Supplier' and 'Start Order'. Below these are links for 'Chat Now!' and 'Add to My Cart'. The 'Seller Support' section includes 'Trade Assurance' and three '100%' badges for 'Payment protection', 'On-time shipment', and 'Product quality protection'. The 'Payment' section lists 'VISA', 'e-Checking', and 'More'.

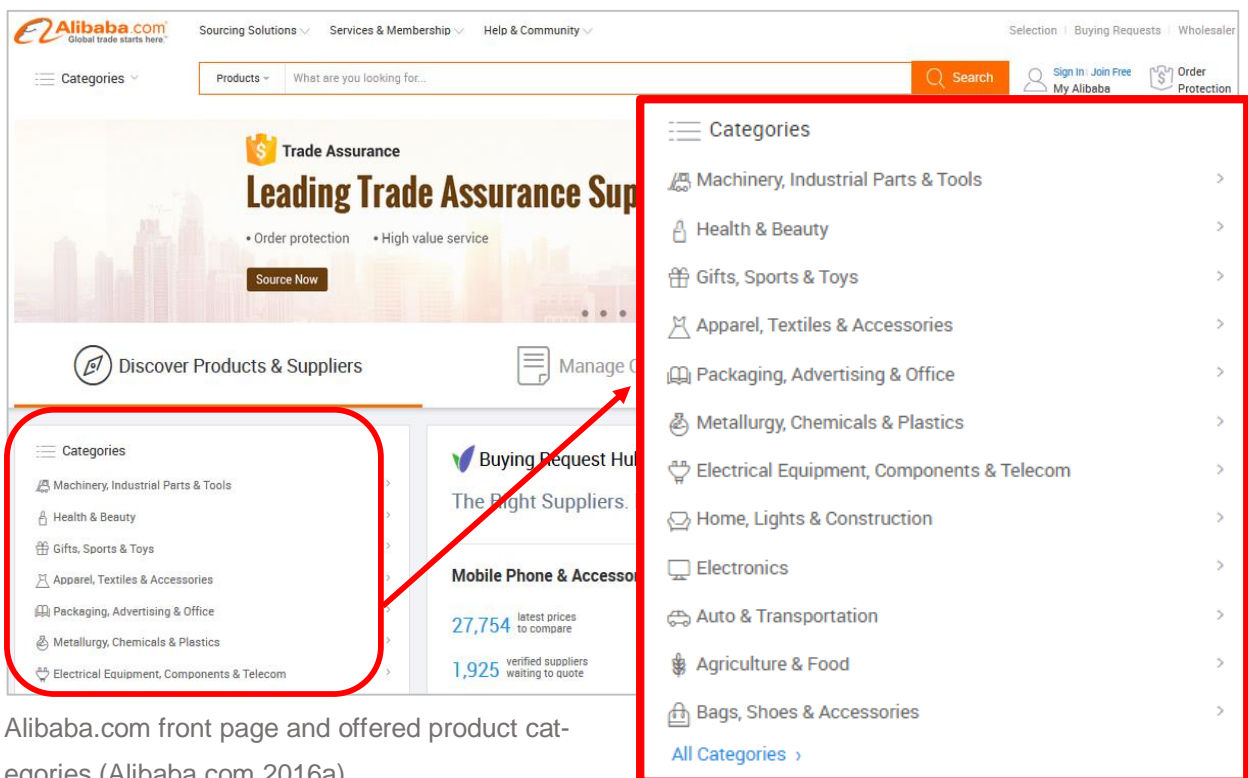
A supplier's product page on Alibaba.com (Alibaba.com 2016c)

### 5.3 Offered product categories

The second sourcing method is to browse through the offered product categories. The offered product categories can be found on the front page below the search bar (a picture is displayed at the end of this page). There are a total of 12 different product categories (Alibaba.com 2016a), and each have their own subcategories. For example, the Machinery, Industrial Parts & Tools –category has 4 subcategories: tools, machinery, measurement and analysis instruments and mechanical parts and fabrication services. Each of these 4 categories have their own subcategories to choose from. For example, the ‘Tools’ –category has such subcategories as power tools, garden tools, tool sets and so on. This is helpful for a buyer who wants to examine a more specific item category, but is still not quite clear on what he/she is looking for.

Once the buyer has opened a desired category, the page shows a list of the products. However, there can be thousands of results and hundreds of pages to browse through. Luckily these results can also be filtered to narrow down the list. The filter options are much similar to the ones on the search method, of course depending on the item searched for.

The category search approach is ideal for those buyers who lack a clear understanding of what they are looking for, and want to browse for different options or bargains. The category sourcing method can be more time-consuming than using the search option, as it requires time for browsing.



Alibaba.com front page and offered product categories (Alibaba.com 2016a)



## 5.4 Buying Request Hub

The Alibaba.com Buying Request Hub is a tool that can be used for requesting instant quotes within 24 hours, from multiple sellers. This can be useful if the buyer is looking to explore between many different suppliers, and wants to spend less time browsing through the search results or offered product categories.


There are three methods to use the hub. The first method is to send a buying request (a picture is displayed below), which is done by filling in a form with details of the sought item and then submitting the form, which will then be automatically filtered and sent to multiple suppliers. The suppliers usually contact the buyer through Alibaba's integrated messaging system. This enables the buyer to find potential suppliers with great efficiency. However, usually the request is met with a large quantity of responses, out of which most can be somewhat or completely useless or unsuitable, also depending on the complexity of the desired product. The buyer can purchase value-added services in order to receive quotations faster, or receive an extra amount of offers.

The image shows a screenshot of the 'Complete Your Buying Request' form on Alibaba.com. The form is titled 'Complete Your Buying Request' and contains several input fields and sections. Red boxes with lines pointing to specific fields contain the following annotations:

- Enter product name:** Points to the text input field containing '10 words of products you are looking for'.
- Enter QTY and units:** Points to the 'Enter quantity' and 'Pieces' dropdown menu.
- Upload attachments:** Points to the 'Upload Attachments' button with a plus sign icon.
- Specify requirements:** Points to the large text area containing 'Dear Sir/Madam, I'm looking for products with the following specifications:' and a 'Remaining: 7922' indicator.
- Additional information:** Points to the 'Destination Port' dropdown menu.

The form also includes a 'Submit Buying Request' button and two checked checkboxes: 'I agree to share my Business Card with quoted suppliers.' and 'I have read, understood and agree to abide by the Buying Request Posting Rules'.

Buying request form (Alibaba.com 2016e)



The second option is to use the search function and choose 'quotes' from the drop-down menu instead of products or suppliers. The result page will display items from different suppliers, and the buyer can then send quote requests just by clicking one button. This method can be useful if the buyer is not sourcing for a very specific type of item.

The third option available is to use an Alibaba.com provided purchasing agent (PA). The service is free of charge, and the buyer can choose the agent from a list provided on the website. The buyer can explore the list of agents and make the decision based on the agent's field of expertise, language skills, how many requests the agent has previously received, and by his/hers average response time. The agent can be contacted via the integrated messaging system by filling out a form with the sought product specifications, after which the agent will search and select suitable suppliers. The agents also provide other services such as order management and product inspections. The purchasing agent service is optimal to those buyers who are new to online purchasing, or have not done business with Chinese suppliers before. The agents are Chinese, therefore their service can be extremely useful for China newcomers.

## 6 Requesting quotations

The buyer can use any of the previously mentioned tools to contact suppliers. In addition, many suppliers have their email contacts available, and this is also one way to get in touch. Whichever contacting method the buyer wishes to use, it is good to keep in mind that most sellers on Alibaba.com may not have proficient English skills, and will in some cases use a translator program to communicate. For this reason it is important to keep the emails and messages as simple and as short as possible to avoid misunderstandings. As previously mentioned, even if the suppliers state a price for a product on their Alibaba.com page (such as \$1-\$3/ per unit), these rarely are the actual prices. That is why the sellers should always be contacted for receiving the correct price, before making any decisions. There are a few points that should be included in all initial contacts with the suppliers.

**Introduction.** The buyer is not the only one who wishes to receive company information. It is good to include a small introduction about the buyer's company in the beginning of an email. For example, the introduction should include the company name, type of business, country of origin, which market the products will be sold to and detailed contact details.

**Minimum Order Quantities, MOQs.** Many suppliers on Alibaba.com offer products based on their MOQ for items. Even if the buyer has a certain amount he/she wishes to order, it may be below the supplier's MOQ. It is always good to ask the seller about their MOQ for the desired products. If the MOQ is much higher than the buyer can afford, it is good to ask if the seller is willing to negotiate it lower. The result depends much on the seller and type of product.

**Sample pricing.** The buyer should inquire what kind of pricing policy the supplier has for samples. Some suppliers offer them free of charge, some request a retail price, and some are willing to offer a discounted rate. Product sampling will be introduced in more detail in the next chapter.

**Production time.** Depending on the buyer's business, it may be crucial to know how long the production will take. In any case, it is good to ask the supplier how long it takes to manufacture the desired product. Lead time can also be requested.

**Requesting pictures.** It is always a good idea to request additional product pictures from different angles. This in first helps to determine whether the supplier has the desired quality and competency for production.

**Currency and terms.** Some suppliers may offer their prices in Chinese RMB unless otherwise noted. The currency used is usually US dollars. As for the incoterms, most of the suppliers quote their products Free on Board (FOB) or Ex Works (EXW). To put it simply, FOB includes the basic freight charges and EXW cost is without any costs for shipping (Investopedia 2015). Some of the suppliers may ask the buyer to pay for the full order upfront, but most will set the terms as 30% payment before production and the balance must be paid upon shipping. The buyer can also state his or hers requests and try to negotiate with the seller.

A good option is to list and number all the questions and requested information in the email. An example of an email template is pictured below. This example is conducted for structural purposes, the content such as order quantity varies depending on the buyer and sought product.

Hi,

My name is xxx from a company called xxx. Our company is located in Finland and we are specialized in the retail of all kinds of t-shirts on the Finnish market.

Could you please send us a quotation for your item xxx. Please include the following information:

1. Please quote based on your MOQ
2. Please advise sample cost
3. Please advise production time
4. Please send additional product photos
5. Please quote your FOB price in USD and inform other payment terms

Thank you.

Best regards,

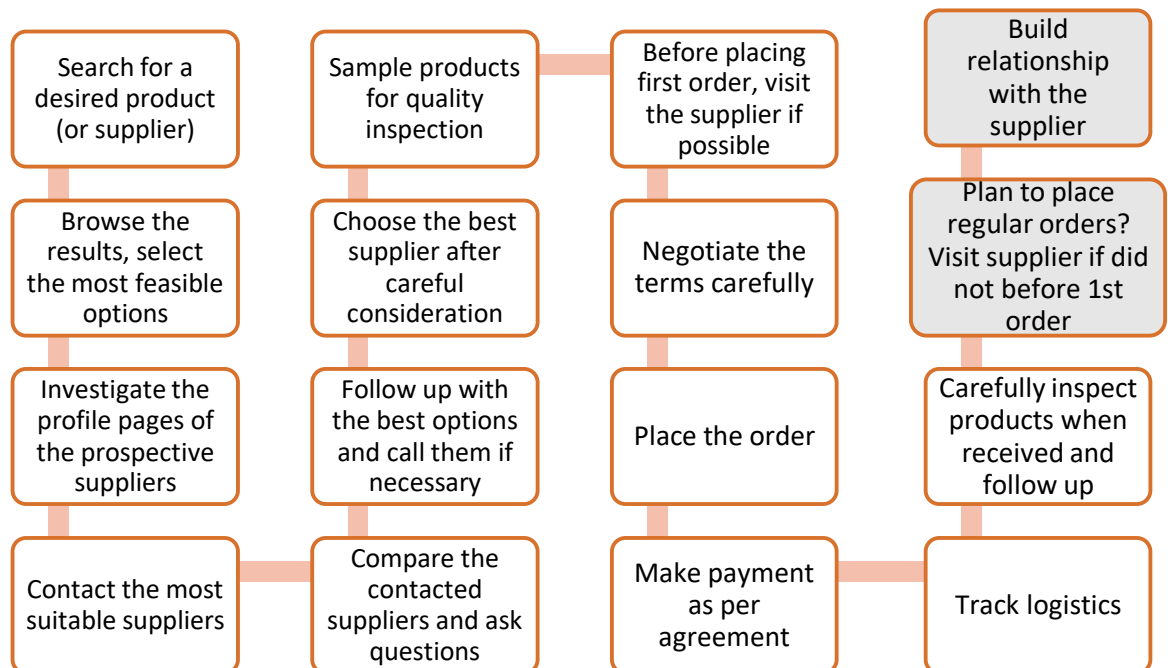
Name  
Company  
Email  
Website  
Phone

The numbering of the requests and questions makes it easier for the supplier to provide answers point by point. As it is clear from the above template, the language should be simple and it is good to keep the sentences as short as possible.

## 7 Recommendations for sourcing

This chapter discusses some general recommendations for the Alibaba.com sourcing process, as well as displays the suggested sourcing process itself. The sourcing process will be introduced first in the next subchapter, in order to clarify some of the general recommended guidelines, which study a few of the topics of the process in a deeper level.

### 7.1 Recommended sourcing process



The above figure displays the order of the recommended sourcing procedures. Simply put, the sourcing process begins with the product search, followed by the browsing of the results page. The buyer should then select the most prospective products and suppliers for closer observation, and carefully study their profile pages and product information. After the buyer has selected the most feasible options, he or she should contact the suppliers to request pricing and more details about the desired item. The buyer can and should contact multiple suppliers simultaneously, after which the next step is to choose the best option among them, and request product samples. After product sampling, the buyer should visit the supplier in China, if possible. During the visit the two parties can negotiate the terms more effectively than online. After the terms are agreed upon, the next step is placing the order and making payment as per agreement, after which the supplier ships the goods and the buyer should track logistics if possible. Upon receiving the goods, the buyer should inspect them carefully and report any inaccuracies or faulty products to the seller, and take the required action. This is where the basic sourcing process ends. The

gray boxes presented in the figure display the case if the buyer plans to place regular orders to the same supplier, and/or the buyer did not visit the supplier before placing the first order.

The next subchapter discusses recommendations for parts of the sourcing process more deeply.

## **7.2 General recommendations for sourcing**

After finding and contacting prospective suppliers, it is important for the buyer to recognize some general sourcing recommendations that are worth taking into account. This following chapter will focus on the most important ones.

### **1. Compare suppliers**

The buyer should try to find as many potential suppliers as possible for weighing different options. This means contacting a lot of suppliers. It is not always about the price the seller offers, but the MOQs and terms are also important factors. It is also a good idea to try to find prospective producers from different areas in China for price and quality comparison. This offers a better understanding of where the cost for production is the most competitive. If possible, the buyer should then focus on potential producers from the same area for visitation purposes.

### **2. Request information**

As mentioned, it is vital to examine the seller's profile page carefully. More importantly, the buyer should try to gather a sufficient amount of information when narrowing down the list of potential suppliers. This means asking a lot of questions about the seller's business and their products. For example, the buyer can ask for a copy of the seller's business license (a document which all companies in China must have) and request a phone number and actually contact the supplier by calling or via Skype. Additional photos of the facilities and products may also be requested. (Lazazzera 2015.)

### **3. Sample products**

The buyer should always request samples to check the product quality before placing any orders to suppliers. Most sellers offer samples against payment. Some suppliers may offer samples free of charge, if they have the requested products available in their inventory.

This of course does not apply to custom made items. The buyer should carefully consider the sample size, since it is risky to determine the product quality based on just one or two pieces of sample products. For an SME the sample size should be relatively small to avoid any economic losses if the products turn out to be bad, however large enough to determine if the supplier is capable of producing quality products (Hulkko, 15).

It is important to note that the samples may not represent the product quality for mass production, as the samples often represent the very best quality the supplier can deliver (Hulkko, 15). If the buyer is planning to use the same producer for future orders, it is essential to pay a visit to the manufacturer's premises at the latest after the first order.

#### **4. Consider carefully**

If the buyer senses that something does not feel right and feels too good to be true, it usually is. If the prices are way off from the quotations received from other suppliers, there is most likely something wrong. If the deal does not feel right, the buyer should always be ready to walk away. (Lazazzera 2015.)

#### **5. Visit the supplier(s)**

There are multiple reasons for visiting the supplier in China. First of all, it helps when determining whether to use the supplier in terms of product quality. This can be easier after the buyer has seen the manufacturer's actual production premises. The second is purely for communication reasons. Communication via emails, Skype and even Alibaba.com can consume a lot of time and different time zones even prolong the process. It may be difficult for an SME to gain the needed attention from the supplier to reply to every email and question timely, since the seller has to answer to the same questions from all their clients. Additionally, most Chinese companies still prefer doing business face to face rather than online (Chinet 2016).

One option is to visit a trade fair in China. This is a good option for meeting with multiple suppliers simultaneously. For example, Canton Fair is a large trade fair held in Guangzhou, China twice a year. Many Chinese suppliers attend the fair. The Canton Fair has multiple phases, in which suppliers with different product categories can present their products.

A visitation to the Chinese supplier should be planned for either before the first order after product sampling, or after the initial order if the buyer plans to use the same supplier for

future orders. It would be ideal to gather a few prospective suppliers from the same region, which all are then convenient to visit during the same trip, and then choose the most suitable producer among them. However, before the visitation the buyer has to plan extremely carefully the product requirements and specifications, and how much the buyer plans to pay. This enables the negotiations to proceed more effectively. It is also viable to consider using a third party Chinese representative, or going directly for a Chinese trading company, in order to bring more cultural understanding to the negotiations (Lazazzerra 2015).

## 6. Get to know the culture

In order to attain successful relationships with Alibaba.com suppliers, it is vital to understand some aspects of Chinese business culture. As Chinese and Finnish business cultures differ from each other greatly, the cultural obstacles are often the first that Finnish companies have to face when doing business in China, or with Chinese people. Finnish companies often fail to understand the complexity of the Chinese culture and market. (Mansikkamäki 2015). This guide will briefly introduce a few of the most important concepts of Chinese business culture, without going into too much detail, due to the fact that Chinese culture is very complex and the way of conducting business varies regionally.

Confucianism beliefs, which are based on the concept of harmonious relationships, have had a major influence on business culture in China. In fact, the primary concepts in Chinese business culture are long relationships and trust. Guanxi and the concept of face play a huge role in the Chinese business world. (Chinet 2017.) Guanxi means a network of relationships generated to provide support and cooperation among the parties involved in doing business, and it applies to people's personal lives as well. The axiom "it's not *what* you know, but *who* you know that's important" and the mentality "you scratch my back, I'll scratch yours" are perhaps the best ways to describe guanxi. (Investopedia 2017.) Simply put, guanxi means the trading of mutual favors between two individuals or businesses.

One perception is, that since China has lacked a strong rule of law for millennia and the law has not always provided the legal protection it should, people had to build another ways for ensuring trust among people for personal and business matters. A person's face, or in another words reputation, is important to maintain among the people in one's guanxi network. For the sake of maintaining face, Chinese people will not take advantage of a person inside their guanxi circle. This is because eventually everybody inside the network would find out what the person has done, and therefore he or she would lose face and



lose the respect of others. (Goh & Sullivan, 2011.) In addition, not responding to another person's request of a favor can be highly damaging to one's face and guanxi network. Traditionally two businesses in China are expected to know each other well before engaging in any business matters in order to build trust and good guanxi. The way business relationships are built in Finland, where meetings are held with the discussion of a business matter as the main agenda, may seem very frank and untrustworthy to a Chinese partner. In general Chinese businesses get to know each other by holding many business meetings and banquets, where business proposals are not the main objectives. The aim of these meetings and dinners is to build good guanxi with each other (Dramer 2016). Decision making often takes a long time in Chinese companies, since the person who makes the final decision may not be present at a business negotiations, or simply due to the fact that the company is not in a hurry to make a decision (Chinet 2017). For Finnish businesses with the "business is business" mentality this may seem as intentional procrastination, but Chinese businesses often want to discuss business matters internally after negotiations, in order to make sure that no mistakes are made.

For a foreign company it may be difficult to achieve long lasting and tight guanxi relationships with Chinese business partners, especially if the company does not have a strong presence on the Chinese market (Goh & Sullivan, 2011). However, as one-time transaction based sourcing partnerships have become more and more common especially among younger generations, more loosely formed relationships with much less emphasis on guanxi and face are emerging. However, if the business relations continue and develop to long-term partnerships, the old business practices usually remain.

Nevertheless, the buyer should make efforts to build good guanxi with the manufacturing partner. As the business culture in China is very relationship-oriented, company visitations are a must for long-term partnerships. These visitations that should be conducted relatively often, are a good opportunity to establish personal relationships with the core representatives of the business partner. Gift giving is a solid approach and it is an essential part of Chinese business culture, however rules and guidelines apply. For example certain items such as clocks and knives are never given as gifts, and numerology plays a part as well. Four pieces of something is never good, since the pronunciation of the number four sounds like the word for death in Chinese. Number eight on the other hand is considered to be a lucky number. (Fox, 2008.)

### Tips for building guanxi

- Stay connected
- Send small gifts occasionally
- Ask for small favors to keep relationship active
- Host get-togethers time to time
- Remember to send greetings on major Chinese holidays
- Get to know some personal details about the core executives of the partner company

### Tips to save face

- Do not show anger or other negative emotions and avoid confrontations
- Try to give a negative answer in a gentle, indirect manner
- Do not criticize a person in front of others
- When asking for a favor, be sure that it equals the prior received engagement in value

(Fox, 2008)

## 8 Risks on Alibaba.com

There are always risks present when sourcing from China, especially for foreign companies that are just starting their international sourcing operations, and are therefore lacking the much needed experience on the field. The most common risk factors to be dealt with Alibaba.com sourcing are involved with trust, quality control, frauds and scams (Alibaba Fraud 2013). Risks affiliated with shipping may also be involved, however as shipping and logistics is handled by a third party (for most part), the risks will not be studied in this guide. The purpose of this chapter is to offer general information about the most significant risks involved in the Alibaba.com procurement process. This chapter will present the most common scam types that may occur when using Alibaba.com, as well as offer tips on how the buyers can safeguard themselves from them.

As Alibaba.com is a world-wide platform where buyers and sellers meet, it is inevitable that scamming on some degree happens. Most of these scams can be avoided by using common sense, and by carefully investigating the sellers before placing any orders. First of all, the easiest way to verify that the seller can be trusted, is to follow the instructions presented in chapter 4 of this guide. It is important to look for the verifications issued by Alibaba.com, and to carefully examine the supplier's profile page for detailed information about their company. However, it cannot be stressed enough, that the most significant precaution the buyer can take, is to use common sense. For example, if a supplier claims to sell branded products, such as Samsung or Gucci, these are fake items and illegal in 99 percent of the cases. Manufacturers of such products are not allowed to sell branded products on Alibaba.com. (Minalto 2015.)

The European buyer should be careful with products that need to comply with the EU product safety standards and labeling requirements. Items such as electronics have strict safety regulations. It is important to check with the supplier if their products have passed the required testing for obtaining a certificate which proofs that their products comply with the EU standards. The buyer should request the testing report and certificate for closer observation. Obtaining such certifications granted by a third party can be expensive for the Chinese manufacturer, and therefore many suppliers have not acquired such certifications. If the supplier is not willing to offer a test report, they most likely have not obtained any, even if they claim so. Importing non-compliant items to EU is illegal. (ChinaImportal 2017.) Luckily some suppliers are eager to display the certifications they have received,

even on their Alibaba.com profile page. The buyer should never do business with a supplier that refuses to offer certifications if requested. In general, if the seller refuses to offer any basic information or even samples, they should not be trusted.

Scammers on Alibaba.com are rarely the type that take all the money and never deliver the goods. For example, there may be scammers that offer samples in good quality, but when the buyer receives the actual order, the quality of the goods is unacceptable and completely unusable. This could happen if the buyer places a small order and pays for the whole order before the supplier has even manufactured the goods. The scammer then claims that the trade was completed as agreed upon, and that they cannot be held directly responsible for any criminal activities. (ChinaImportal 2017, Hulkko, 18.) It is important to negotiate the payment terms so that a part of the payment is done before manufacturing, and the balance once the goods are ready to ship. Once again, common sense is the key.

Some manufacturers may try to add additional fees that are not stated in the trade contract. Such fees may include Paypal transfer fees, additional material fees, packaging fees or shipping fees. While these are not incorrect, they may come as a surprise for the buyer after the deals and calculations have already been made. (Hulkko, 24.) The solution for this is to carefully negotiate the terms and check with the supplier that there will not be any more fees after the initial payments are done. The importance of careful negotiations cannot be stressed enough.

As previously stated in this guide, it is essential to make detailed contracts with the seller. However, the first step the buyer can take in order to avoid any scams and surprises is to carefully check all the verifications the supplier has obtained on Alibaba.com, and contact them to ask as much questions as possible. This is the best way to figure out whether the supplier can be trusted or not. The general rule is, if something sounds too good to be true, it usually is. Often large, more professional manufacturers may have higher costs, but these suppliers could be more reliable than small manufacturers with lower costs. Usually large factories have experience in working with foreign companies, and offer professional customer service. Smaller suppliers may not have the resources to hire staff with proficient English skills, and may not operate as professionally. For this reason it may be a good option for an SME to do business with a more professional partner, especially if the SME is sourcing for the first time from China. The lowest cost is not always the best option to go after. Nevertheless, the general rule in Aliababa.com sourcing is to use common sense, and paying attention to details.

## 9 Conclusions

Based on the guidelines presented in the previous chapter, the most important conclusions are listed as following:

### **Investigate suppliers carefully**

The importance cannot be stressed enough. By carefully investigating the suppliers' Alibaba.com profiles and asking questions, the buyer is more likely to find reliable, professional partners and avoid scams and other mishaps. Research should be done as much as possible.

### **Build a relationship with the Chinese partner**

Relationship building is essential, especially if the buyer wishes to cooperate with the same supplier in future. Honest suppliers prefer to know who they do business with, much like the buyers are willing to do as well. Visiting the supplier in China builds trust among both parties.

### **Always sample products**

The buyer should always request samples before placing an order. In general, samples offer an understanding of the supplier's best quality, which should be kept in mind during decision making. If the sample quality is not sufficient, the item quality may drop even more in mass production. In this case it is worth looking for a new supplier. (Hulkko, 28.)

### **Make realistic plans and calculations**

The buyer should remember to take into account the following factors when calculating whether to source from China: travel costs, cost associated with quality assurance, damage control costs, consultancy costs (if required) and supplier changing costs (Hulkko, 29). These costs could still be relatively big for an SME, and it is good to consider if sourcing from China is the right choice after all, even though Alibaba.com has made the global sourcing process significantly easier.

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