

# Benefiting from Business Model Innovation: The Case of Alibaba's Alitrip

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**Abstract**—Business models dominate companies' ability to create value in the market. Globalization, technological advancement, and changes in customer expectations have transformed industry structures and dynamics. This requires companies to review existing business models and create new ones to strengthen their niches in highly competitive landscapes. This paper explores the case of Alitrip, a major player in China's online travel industry. Based on publicly available data, this paper examines how the development of an innovative business model had helped the online travel platform capture new opportunities by filling the industry's service gaps. The analysis shows that the game-changing business model of Alitrip weaves together resource-driven, synergy-building, customer-oriented, vision-led, and cross-industry innovation. This integrated, innovative approach enables Alitrip to offer unique services for unmet demands along the value chain, while making competitor imitation difficult, if not impossible.

**Index Terms**—Alibaba, business model innovation, case study, e-commerce.

## I. INTRODUCTION

Business models explain how a company creates, delivers and captures value [1]. They are both vehicles for and subjects of innovation [2]. With increased market globalization, companies are under pressure to rethink their business models, as they are finding it increasingly difficult to charge premium prices for product superiority or profit from sound manufacturing capabilities [3]. A company's product marketing strategy and business model are generally the factors that most affect corporate performance [4]. Even if firms offer similar products and services, different business models can lead to radically different financial performance [3].

Business model innovation can be a source of sustainable, powerful competitive advantages [5]. It is the most difficult type of innovation to imitate [6]. Existing literature identifies an organization's structure, systems and culture as the most critical obstacles to innovation [7]. Competitors would need to replicate an entire organizational ecosystem, instead of a single product, marketing or operational strategy. When embedded in an innovative business model, a product or service innovation will create a much higher competitive barrier than a stand-alone product or process innovation. It is therefore of paramount importance for many companies to

find a "blueprint" for innovation [8].

Based on the well-known business model proposed by Osterwalder and Pigneur [1], we analyze the business model innovation of Alitrip, one of the largest online travel platforms in China. We illustrate how business model innovation, when driven by available resources, synergy-building, customer needs, corporate vision, and cross-industry adaptation, can create and capture value for a company.

## II. ALITIP: THE BACKGROUND

### A. The Parent Group: Alibaba

Alibaba Group (hereafter referred as Alibaba) was first founded in 1999 by Jack Ma to provide a business-to-business portal for small and medium-sized merchants in China selling their products to global buyers. Over the years, Alibaba has developed into the largest online marketplace in the world, providing both business-to-consumer and business-to-business electronic trading platforms. It is responsible for over 60% of the parcels delivered in China and has more data than any other institution regarding the Chinese middle class's spending habits and creditworthiness [9]. It started trading on the New Year Stock Exchange on September 19, 2014. Raised US\$25 billion, the group's initial public offering (IPO) is the world's largest in amount to date.

### B. Concentric Diversification to the Online Travel Industry: Alitrip

Alibaba launched its first online travel platform, Taobao Travel, in May 2010. This provided a platform for merchants to offer flight tickets, accommodations, vacation packages, excursions and visa services. Within one year, its revenues already exceeded US\$1 billion. The same year, Alibaba developed Etao, a hotel metasearch engine. Taobao Travel's gross bookings in 2011 totaled US\$1.73 billion, most of which came from air ticket sales [10]. The highest sales record was more than 80,000 tickets in a day, or equivalently, one ticket sold every second.

In May 2013, the Group invested US\$294 million in AutoNavi, a NASDAQ-listed company that provides digital maps, navigation and location-based solutions in China. The latter agreed to share its map and location-related data so as to allow travelers to search in Etao's hotel portal and book hotels directly within AutoNavi maps. At the same time, Alibaba also invested in Qyer.com and 117go.com. Qyer provides a portal in Chinese language with travel packages sourced from various sites, whereas 117go.com is a travel journal and experience-sharing app. By the end of 2013,

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Taobao Travel had more than 800 International Air Transport Association (IATA) certified flight-ticket dealers, 100,000 hotels and two million travel products, covering a wide range of popular travel websites in the country including Ctrip, eLong, LY, and lvmama.

In October 2014, Alibaba grouped all its travel businesses under a new brand name, Alitrip, to consolidate all marketing efforts on its business-to-consumer platform. It aims to reap the benefits of the fast-growing Chinese travel market by capitalizing on Alibaba's huge user base, and leveraging Alibaba's backend services, including Alipay (online payment platform) and Aliyun (cloud computing).

### III. CASE STUDY: ALITRIP'S INNOVATIVE BUSINESS MODEL

Business models is a key driver for value creation. We analyze Alitrip's business model based on the nine building blocks proposed by Osterwalder and Pigneur [1], which generally cover the key components of a business model in many related studies (e.g. [11]-[12]).

TABLE I: NINE BUILDING BLOCKS OF A BUSINESS MODEL (SOURCE: OSTERWALDER AND PIGNEUR 2010)

BUILDING BLOCK	DESCRIPTION
Customer Segments	The particular types of people or organizations a company wants to reach and serve.
Value propositions	Benefits a company can create for a specific customer segment.
Channels	Means by which a company reaches customer segments, and include communications, distribution and sales channels
Customer relationships	The relationships a company has developed with different customer segments, and are closely related to customer acquisition, retention and upselling
Revenue streams	The ways a company generates income from customers.
Key resources	The most important assets that enable a company to create and offer value propositions, reach markets, maintain relationships with customer segments, and earn revenue.
Key activities	The most important tasks a company must undertake to make its business model work (e.g. production and sales).
Key partnerships	The network of suppliers and partners that make a business model function.
Cost structure	The costs that must be incurred to deliver on a business model.

#### A. Customer Segments

Alitrip targets building a unified platform for all parties on the value chain, which generally includes travel service suppliers (e.g. hotels, restaurants, airlines and theme parks), travel intermediaries (e.g. travel agents and tour operators) and travelers. On the buyer side, Alitrip focuses on expanding its customer base and active-user group. In particular, it establishes a generous refund policy and sets up a consumer protection fund to attract customers who are relatively wary of online transactions.

On the seller side, Alitrip attracts additional travel suppliers and intermediaries to operate on its platform by helping them with customer segmentation. It can categorize customers based on their online shopping behavior in other marketplaces, payment histories, and the credit ratings offered by Sesame Credit, a subsidiary of Alibaba. This enables travel suppliers and intermediates to conduct target

marketing and tailor offerings to their target groups.

#### B. Value Propositions

Alitrip has pioneered a number of new service offerings in the travel industry. For example, it launches a "Hotel of the Future" program which allows customers to self-select hotel rooms online, and use self-check-in systems. In its "Post Post Day" initiative, qualified travelers whose Sesame credit scores are high enough can use Alitrip to reserve hotel rooms without paying a deposit, and can check-out simply by leaving their room keys at reception. Room charges and incidental expenses are automatically debited from the travelers' Alipay accounts. This service enables travelers to enjoy express check-in and check-out, and also protects personal privacy. Around 5,500 hotels in China, ranging from high-end brands such as Shangri-La, Starwood and Jinling, to budget hotel groups such as Homeinns, Yinzuo and Huazhu, have joined the program.

Alitrip has brought travelers numerous benefits. First, it provides a wide range of travel choices offered by a variety of service providers. Travelers can mix and match services available on the platform to meet their individual needs. Second, its intention is to provide travelers a hassle-free user experience. The portal makes it quick and easy for travelers to book and cancel trips using mobile devices, and simplifies hotel check-in, check-out and payment processes. In case of cancelation, Alibaba promises a refund within one hour. Travelers' preferences, such as flight seat choices, are recorded and analyzed by the system. The system will automatically make a recommendation when a traveler makes a subsequent booking. Third, Alitrip can offer unique services and products with the support of Alibaba. For example, travelers using a Yu'e Bao account can make last-minute payments. Travelers can also use "Just Spend" to settle travel purchases with small loans that are interest-free as long as they are fully repaid within one month.

For travel suppliers and intermediaries, Alitrip's business-to-consumer platform is invaluable for a number of reasons. First, it offers them the opportunity to access to Alibaba's huge user group, which is naturally appealing to sellers of all sizes, from entrepreneurs to high-end brands like Cathay Pacific and Shangri-La. Second, it has inherited Alibaba's strong brand and reputation. Small and medium-sized travel businesses especially benefit from leveraging Alipay's customer protection mechanisms to serve their customers. Third, the portal can develop innovative services enabled by the rest of the Alibaba's business lines. For example, online hotel bookings typically require customers to reserve rooms with advance cash payment or credit card details. This is to safeguard hoteliers from high no-show rates. Alitrip mimics the credit approval practices in financial industry, and evaluates travelers' creditworthiness in advance. This is a truly value-added service to hoteliers, aimed at lowering the average no-show rate of participating hoteliers from the industry average of 40-50% to less than 30%.

#### C. Channels

Alibaba is the largest e-commerce company in the world in terms of gross merchandise volume, having captured 80% of

the e-commerce market in China. Alitrip builds on Alibaba's technological infrastructure to help travel suppliers and intermediaries reach a massive group of online buyers.

Mobile service is one of Alitrip's top two strategic priorities, for riding on the rapid growth of the mobile commerce market. Its mobile app combines an array of service functionalities that travelers find useful. These include booking taxis, "one click to change flight tickets", and user-preference pre-registration. Alitrip also offers mobile promotions on 11 November 2014 (so-called "the Singles' Day" promoted by Alibaba as an online shopping festival), with some flight tickets priced at only RMB 1.

#### D. Customer Relationships

Alitrip uses its cutting-edge IT capability to provide online customized services to travelers and improve their user experience. Alibaba's wide range of service offerings, such as Alipay accounts, Yu'e Bao accounts, and Sina miniblogs, complement each other in cross-selling and maintaining vigorous customer ties.

Alitrip endorses all travel businesses available on its platform and guarantees refunds. This addresses users' concerns on the service quality sold online, in turn helps Alitrip acquire and retain customers.

Alitrip also aims to support sales on its marketplace by providing affiliated services in cooperation with its sister companies. For example, Alimama aids sellers in marketing and promotion on its marketplace; Shiji, Alibaba's strategic IT partner, is working with Aliyun to develop a hotel management system that fully integrates with Alitrip's sales platform. All these initiatives help secure and strengthen business relationships with sellers.

#### E. Revenue Streams

As with Alibaba's other marketplaces, Alitrip does not charge companies to list on its marketplace. Its revenue is generated mainly from online marketing, with commission fees charged for completed transactions. Moreover, in collaboration with Aliyun, Alitrip may possibly benefit from cross-selling to hoteliers and other travel suppliers.

#### F. Key Resources

Alitrip's key resources are consolidated from Alibaba's investments in travel industry development over the years. Alibaba's brand name and the resources shared among the Group's marketplaces, including its huge customer base and IT capability, are critical to Alitrip's success. The operating model established by Alibaba's marketplaces has also nurtured an active group of online buyers.

Alibaba has over ten years' experience in developing online trading platforms and several years' experience in running Taobao Travel and other online travel businesses. This has laid a solid foundation enabling Alitrip to leapfrog towards its objective of "elevating the online travel sector to a higher level."

#### G. Key Activities

Alitrip's core activity is to provide a reliable business-to-consumer platform that allows travel suppliers and intermediaries to meet, make sales to, and serve their customers. It is committed to developing new platform

features to meet both buyer and seller demands. In partnership with other ventures in Alibaba, Alitrip envisages bringing innovative and value-added services to the hospitality industry.

#### H. Key Partnerships

Alitrip derives support from Alipay, Aliyun, Sesame Credit and other subsidiaries in Alibaba in designing and delivering innovative services such as Post Post Day. Alitrip's business model emphasizes the use of mobile and IT technologies to provide customized services in which Alitrip's strategic IT partner, Shiji, has played an important role. By establishing a long-term relationship with merchants on its platform, Alitrip can better understand their needs. This enables Alitrip to structure new services that can help them drive business growth and streamline their operations, creating a win-win situation.

#### I. Cost Structure

Alitrip has benefited from Alibaba's light-asset, no-inventory business model. Sharing the same resources with other marketplaces within Alibaba also helps Alitrip lower its costs, thanks to economies of scale.

Under its current operating model, Alitrip absorbs the risks involved in endorsing the travel suppliers and travelers using its platform. In the "Hotel of the Future" program, Alitrip has launched a "Credit Stay" service. If hotels do not receive payment within two hours after guests leave, Alitrip, as the platform operator, will automatically make payment to the hotel and bear the costs.

Key Partnerships	Key Activities	Value Propositions	Customer Relationships	Customer Segments
<ul style="list-style-type: none"> <li>Alipay</li> <li>Aliyun</li> <li>Sesame Credit</li> <li>Shiji</li> </ul>	<ul style="list-style-type: none"> <li>Platform development / maintenance / updates</li> </ul>	<b>Travelers:</b> <ul style="list-style-type: none"> <li>Wide range of travel products</li> <li>Hassle-free user experience</li> <li>Unique services</li> </ul>	<ul style="list-style-type: none"> <li>Customer stickiness via cross-selling</li> <li>Guarantee</li> </ul>	<ul style="list-style-type: none"> <li>Travelers</li> <li>Travel service suppliers &amp; intermediaries</li> </ul>
	<b>Key Resources</b> <ul style="list-style-type: none"> <li>Alibaba's support</li> </ul>	<b>Travel service suppliers &amp; intermediaries:</b> <ul style="list-style-type: none"> <li>Alibaba's huge user group</li> <li>Alitrip's endorsement</li> <li>Manage overbooking /no-show issues</li> </ul>	<b>Channels</b> <ul style="list-style-type: none"> <li>Online</li> <li>Mobile devices</li> </ul>	
<b>Cost Structure</b>		<b>Revenue Streams</b>		
<ul style="list-style-type: none"> <li>Light asset, no inventory</li> <li>Cost synergy with Alibaba</li> <li>Endorsement and refund-guarantee</li> </ul>		<ul style="list-style-type: none"> <li>Online marketing</li> <li>Commission fee</li> <li>Cross-selling</li> </ul>		

Fig. 1. Analysis of alitrip's innovative business model (summary).

## IV. MANAGERIAL INSIGHTS

Alitrip demonstrates a multi-dimensional approach to developing an innovative business model. This is driven by available resources, builds synergy, is customer-oriented, is guided by corporate vision, and leverages cross-industry practices.

#### A. Resource-Driven Innovation

Resource-driven innovation transforms a company's business model by leveraging its capabilities and competencies. This requires a fresh look at how different product and service lines, business processes, and even cost centers, can be re-organized and re-assembled to provide new company offerings. Alitrip is a good example of how a company can make use of the value latent in its existing

infrastructure to contribute to business model innovation [3], [13].

Alitrip's business model is primarily shaped by and built on Alibaba's existing diversified capabilities, which involve such important functions as marketing, sales, and payment gateway. It capitalizes on Alibaba's competencies to develop new service offerings, such as providing unique customer-segmentation approaches for travel suppliers and intermediaries with support from Aliyun's big data mining capacities, and enabling customers to delay payments until last minute using their Yu'e Bao accounts.

#### *B. Synergy-Building Innovation*

Development of an innovative business model that can bring synergy to a company as well as its affiliates and subsidiaries is quite remarkable. Synergies can also be extended to third parties through the formation of strategic alliance, which is a fast and flexible means of utilizing other companies' complementary resources and expertise [14], [15].

Alitrip and its partners within Alibaba all contribute to this business model innovation. On one hand, Alibaba can employ economies of scale and cost-sharing in platform development, big data-related R&D, marketing and brand building, and so on. On the other hand, Alitrip's business fuels its partners' operations. For example, while data from Sesame Credit enables Alitrip to provide new services to both hoteliers and travelers based on credit ratings, Alitrip can continuously enrich Sesame Credit's database with customers' credit and transactional data histories. This mutually benefits both Alitrip and Sesame Credit.

Alitrip is also developing a cloud-based management system for internal hotel operations. This can substantially increase the stickiness of its sales platform for its hotel partners, while helping them to improve operational efficiency.

#### *C. Customer-Oriented Innovation*

Customer-oriented innovation emphasizes user experience and requires a thorough understanding of customer needs, concerns, aspirations and values [16]-[18]. Business models that built upon the customer perspective enable companies to deliver exceptional services that meet target customers' demand.

Alitrip takes a customer-centric approach to designing and expanding its service offerings. It focuses on minimizing travelers' hassles throughout the entire process of information search, shopping-around, booking, and payment. Alitrip also allows customers to change reservations with great ease, provides a no-questions-asked cancellation policy, and offers guaranteed refunds in case of dispute. By addressing what customers need fundamentally and developing shared solutions with customers [19], Alitrip successfully engages existing customers, incubates active user groups, and attracts new customers.

#### *D. Vision-Led Innovation*

A company needs to have a clear business vision with a high novelty level to differentiate itself and gain competitive advantage. A clear business vision can provide explicit direction for business model innovation, enabling a company

to use its capabilities efficiently and effectively to achieve its business objectives [20]-[21].

Alitrip has a clear vision of revolutionizing the travel industry to fulfill unmet demands. The status quo and competitive benchmarking are not the focal points of Alitrip's business model innovation. Online travel businesses generally stress on the sales of travel products. Instead, Alitrip provides unique services, such as integrated management systems that revamp the way hotels manage their operations and processes. For travelers, Alitrip brings a new level of personalization based not only on user preference and online behavior, but on credit rating.

#### *E. Cross-Industry Innovation*

One promising means of creating economic value through business model development is cross-industry innovation, in which other industries' existing practices are imitated and fine-tuned to fit a company's business [22]. Cross-industry innovation usually yields new products and services [23], triggers process re-engineering [24], and enhances technology and R&D capabilities [25].

Alitrip draws on the financial services industry's credit-ratings concept to develop a range of new services for the travel industry. Travelers' creditworthiness is assessed during the reservation stage to help hotels manage overbooking and no-show issues. "Credit Hotel" provides a "book-first-pay-later" service to travelers. Before launch, Alitrip spent a year testing the idea, finding that customers are more trustworthy than expected and pay nearly all hotel bills. If customers do not make final payments, they will bear the cost of a low credit rating in Alibaba's marketplaces.

### **V. CONCLUSION**

A business model concerns a set of corporate capabilities that enable the creation and capturing of value and achievement of economic and social objectives [26]. Technological sophistication alone cannot secure a firm's success [27]. A company needs to design an appropriate business model to realize its full commercial potential [2].

Alitrip provides a showcase illustrating how multi-faceted business model innovation can generate value. Such innovation is rooted in resources and corporate vision, delivers customer-oriented services and builds synergy among partners, while leveraging cross-industry best practices. This paper contributes to the literature by operationalizing the business model based on [1] in the context of e-commerce business. It also provides managerial insights and lessons learnt from Alitrip's business model innovation for other e-commerce players.

This study has a few limitations. First, it is based on Alitrip's business model innovation in the online travel industry. Due to the industry's unique nature, it may not be possible to generalize this analysis to other sectors. Second, since it is trivial for Alitrip to form partnerships with other Alibaba subsidiaries, this study does not consider such factors as business-partner selection [28]-[30], and its relation to economic performance [31].

Prior research suggests that alliance capabilities can explain the varying performance of strategic partners [32].

Further studies might investigate how alliance capabilities can affect the value that business model innovation brings to different parties in an alliance. This study could also be extended to examine the relationship between Alitrip's new business model and its financial performance.

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innovation, strategy, corporate governance and corporate social responsibility.



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