ALIBABA: AN ONLINE COLOSSUS IN CHINA GOES GLOBAL

China now has the world's largest number of internet users and Alibaba is China's largest ecommerce company (23 percent owned by Yahoo and 36 percent owned by Japan's SoftBank). In 2014, when Alibaba completed its initial public offering (IPO) on the New York Stock Exchange, it immediately became worth more than Amazon and eBay combined and has a larger market capitalization than Walmart. Transactions of goods on Alibaba's websites account for more than 2 percent of China's GDP in 2012. Comparatively, Walmart's sales account for 0.03 percent of U.S. GDP in 2012. Alibaba's presence has turned China into the world's second largest ecommerce market after the United States. Chinese consumers purchase products on Tmall, a consumer shopping site on Alibaba analogous to a department store and similar to Amazon. Because of China's vast size and underdeveloped consumer market, it has few national mainland malls or brick and mortar department store chains. As such, the presence of Alibaba is stimulating consumption that would not otherwise take place in China. Furthermore, Alibaba's presence changed consumer buying habits, especially in third- and fourth-tier (e.g., smaller and more geographically remote) cities because it gives consumers access to items that they could not previously obtain locally.

Alibaba Drone.PNG

Taobao is another website owned by Alibaba and is comparable to eBay in the United States. On Taobao, Alibaba does not stock or sell its own goods but rather provides platforms where manufacturers, resellers, and other middle-men open online storefronts. Larger consumer branded products prefer Tmall because Alibaba's policies promote this site more heavily and fraudulent brands are less likely to be found on this site. For instance, popular brands such as Prada handbags must provide evidence that they are a licensed distributor before they are allowed to sell on Tmall. Taobao is more focused on small sellers; it has 6 million registered sellers with a vast range in size.

Given these two websites, Alibaba is the easiest way for foreign retailers to enter the Chinese market because it has such reach. Online sales account for 90 percent of marketplace sales in China, compared with 24 percent for the United States in 2014. Accordingly, Alibaba provides the easiest way to enter the Chinese market for foreign retailers due the large access to consumers available through Alibaba's websites. Alibaba's websites also give smaller Chinese manufacturers the opportunity to increase domestic sales because of Alibaba's reach. For example, Weighing Apparatus Group, originally a supplier of household and industrial scales for Bed Bath & Beyond, set up a website on Taobao in 2009. In 2014, one-fifth of its domestic sales now flow through its Taobao online storefront, allowing it to move beyond being only a supplier for other firm's branded products.

Alibaba through its Alipay system is working on a joint venture with Apple to provide back-end services for the Apple Pay payment system allowing iPhone users in China to pay for goods with Apple Pay using their Alipay accounts. This approach is fostering an improved mobile online strategy for Alibaba. It also facilitates better service for online Apple iPhone users who desire to browse and purchase on Alibaba websites.

Fraudulent goods can be an important strategic issue in China because of previous product liability suits from banned or recalled goods sold to U.S. consumers.

As such, Alibaba is collaborating with the United States Consumer Product Safety Commission to improve its credibility among U.S. consumers by helping to ban sale of fake and fraudulently branded or recalled goods. This is also facilitating Alibaba's global access strategy.

Alibaba is also moving into online media content and streaming video services. In 2014, it announced its acquisition of ChinaVision Media, producers or co-producers of films including "Crouching Tiger, Hidden Dragon" and "Breaking the Silence." Just as Amazon and Netflix are producing their own media content, Alibaba is moving in this direction as well, as it competes with other service providers such as Tencent and Baidu in web communications and broadcasting in China. Getting its strategies right in the local domestic Chines market as well as internationally is key to Alibaba's success.

Sources: D. Tsuruoka, 2015, Alibaba blocks sale of unsafe goods to U.S. shoppers, *Investor's Business Daily*, www.investorsbusinessdaily.com, Jan 13; S. Cendrowski, 2014, Alibaba's Maggie Wu and Lucy Peng: The dynamic duo behind the IPO, *Fortune*, www.fortune.com, September 17; R. Flannery, 2014, China media entrepreneur's fortune soars on Alibaba investment, *Forbes*, www.forbes.com, March 12; C. Larson, 2014, In China its meet me at Tmall, *Bloomberg Businessweek*, www.bloombergbusinessweek.com, September 11.

As we see from the Opening Case, Alibaba is highly successful because its strategy in China has allowed it to have a massive impact in regard to online sales in a large emerging economy. It is now seeking to grow globally and gain widespread name/brand recognition through its 2014 IPO in New York. These attributes have enhanced its ability to compete in global online markets. Therefore, we can conclude that Alibaba has achieved *strategic competitiveness*. It clearly has been able to earn *above-average returns*, at least, domestically. Yet Alibaba has received its share of criticism because of its perceived contribution to the sale of fraudulent goods. However, it is addressing this issue through its collaboration with the United States Consumer Product Safety Commission. The top management of Alibaba has used the strategic management process (see Figure 1.1) as the foundation for the commitments, decisions, and actions they took to pursue strategic competitiveness and above-average returns. The strategic management process is fully explained in this book. We introduce you to this process in the next few paragraphs.

Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. A **strategy** is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. When choosing a strategy, firms make choices among competing alternatives as the pathway for deciding how they will pursue strategic competitiveness. In this sense, the chosen strategy indicates what the firm *will do* as well as what the firm *will not do*.

ategic competitiveness chieved when a firm cessfully formulates and plements a value creating tegy.

trategy is an integrated d coordinated set of mmitments and actions igned to exploit core mpetencies and gain a mpetitive advantage.

rm has a **competitive vantage** when it plements a strategy t creates superior value customers and that mpetitors are unable to plicate or find it too costly ry to imitate.

As explained in the Opening Case, Alibaba has been a leader in its industry as one of the most successful facilitators of online sales in China and is now seeking to become a successful global business. However, in doing so it must respond to its changing environment. In fact, to adapt to local environments, it sometimes makes major changes. For example, it is coordinating with Apple Pay to improve access for the high number iPhones that Apple is now selling in China.

A firm has a **competitive advantage** "when it implements a strategy that creates superior value for customers and that its competitors are unable to duplicate or find too costly to imitate."[1] An organization can be confident that its strategy has resulted in one or more useful competitive advantages only after competitors' efforts to duplicate its strategy have ceased or failed. In addition, firms must understand that no competitive advantage is permanent.[2] The speed with which competitors are able to acquire the skills

In smaller, new venture firms, returns are sometimes measured in terms of the amount and speed of growth (e.g., in annual sales) rather than more traditional profitability measures[7] because new ventures require time to earn acceptable returns (in the form of return on assets and so forth) on investors' investments.[8]

Understanding how to exploit a competitive advantage is important for firms seeking to earn above-average returns.[9] Firms without a competitive advantage or that are not competing in an attractive industry earn, at best, average returns. **Average returns** are returns equal to those an investor expects to earn from other investments with a similar amount of risk. In the long run, an inability to earn at least average returns results first in decline and, eventually, failure.[10] Failure occurs because investors withdraw their investments from those firms earning less-than-average returns.

As previously noted, there are no guarantees of permanent success. Companies that are prospering must not become overconfident. Research suggests that overconfidence can lead to excessive risk taking.[11] Even considering Apple's excellent current performance, it still must be careful not to become overconfident and continue its quest to be the leader for its markets.

The **strategic management process** is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns (see Figure 1.1)[12]. The process involves analysis, strategy and performance (the A-S-P model—see Figure 1.1). The firm's first step in the process is to *analyze* its external environment and internal organization to determine its resources, capabilities, and core-competencies—on which its strategy likely will be based. Alibaba has established its dominant position because it has excelled in using this process. The *strategy* portion of the model entails strategy formulation and strategy implementation.

With the information gained from external and internal analyses, the firm develops its vision and mission and formulates one or more *strategies*. To implement its strategies, the firm takes actions to enact each strategy with the intent of achieving strategic competitiveness and above-average returns (*performance*). Effective strategic actions that take place in the context of carefully integrated strategy formulation and implementation efforts result in positive performance. This dynamic strategic management process must be maintained as ever-changing markets and competitive structures are coordinated with a firm's continuously evolving strategic inputs.[13]

In the remaining chapters of this book, we use the strategic management process to explain what firms do to achieve strategic competitiveness and earn above-average returns. We demonstrate why some firms consistently achieve competitive success while others fail to do so.[14] As you will see, the reality of global competition is a critical part of the strategic management process and significantly influences firms' performances.[15] Indeed, learning how to successfully compete in the globalized world is one of the most significant challenges for firms competing in the current century.[16]

Several topics will be discussed in this chapter. First, we describe the current competitive landscape. This challenging landscape is being created primarily by the emergence of a global economy, globalization resulting from that economy, and rapid technological changes. Next, we examine two models that firms use to gather the information and knowledge required to choose and then effectively implement their strategies. The insights gained from these models also serve as the foundation for forming the firm's vision and mission. The first model (industrial organization or I/O) suggests that the external environment is the primary determinant of a firm's strategic actions. According to this model, identifying and then operating effectively in an attractive (i.e., profitable) industry or segment of an industry are the keys to competitive success.[17] The second model (resource-based) suggests that a firm's unique resources and capabilities are the critical link to strategic competitiveness.[18] Thus, the first model is concerned primarily with the firm's external environment, while the second model is concerned primarily with the firm's internal organization. After discussing vision and mission, direction-setting statements that influence the choice and use of strategies, we describe the stakeholders that organizations serve. The degree to which stakeholders' needs can be met increases when firms achieve strategic competitiveness and earn above-average returns. Closing the chapter are introductions to strategic leaders and the elements of the strategic management process.

age returns are returns to those an investor cts to earn from other tments with a similar unt of risk.

trategic management ess is the full set of nitments, decisions, ctions required for a o achieve strategic etitiveness and earn e-average returns.

1-1 The Competitive Landscape

The fundamental nature of competition in many of the world's industries is changing. Although financial capital is no longer scarce due to the deep recession, markets are increasingly volatile.[19] Because of this, the pace of change is relentless and ever-increasing. Even determining the boundaries of an industry has become challenging. Consider, for example, how advances in interactive computer networks and telecommunications have blurred the boundaries of the entertainment industry. Today, not only do cable companies and satellite networks compete for entertainment revenue from television, but telecommunication companies are moving into the entertainment business through significant improvements in fiber-optic lines.[20] More recently, internet only streaming services have started to compete with cable, satellite, and telecommunication offerings. "Sling TV is part of a growing wave of offerings expected from tech, telecom and media companies in the coming year, posing a threat to the established television business, which takes in $170 billion a year. Meanwhile, the streaming outlets of Amazon, Hulu and Netflix continue to pour resources into developing more robust offerings. Sony, CBS, HBO and others are starting Internet-only subscription offerings."[21] Interestingly, Netflix and other streaming content providers such as Amazon are producing their own content; Netflix is producing repeat series such as "House of Cards," "Orange Is the New Black," and "Marco Polo".[22] As noted in the opening case, Alibaba intends to enter the entertainment business as Netflix and other content distributors and producers enter international markets.

Other characteristics of the current competitive landscape are noteworthy. Conventional sources of competitive advantage such as economies of scale and huge advertising budgets are not as effective as they once were (e.g., due to social media advertising) in terms of helping firms earn above-average returns. Moreover, the traditional managerial mind-set is unlikely to lead a firm to strategic competitiveness. Managers must adopt a new mind-set that values flexibility, speed, innovation, integration, and the challenges that evolve from constantly changing conditions.[23] The conditions of the competitive landscape result in a perilous business world, one in which the investments that are required to compete on a global scale are enormous and the consequences of failure are severe.[24] Effective use of the strategic management process reduces the likelihood of failure for firms as they encounter the conditions of today's competitive landscape.

Hypercompetition describes competition that is excessive such that it creates inherent instability and necessitates constant disruptive change for firms in the competitive landscape.[25] Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants.[26] It is a condition of rapidly escalating competition based on price-quality positioning, competition to create new know-how and establish first-mover advantage, and competition to protect or invade established product or geographic markets.[27] In a hypercompetitive market, firms often aggressively challenge their competitors in the hopes of improving their competitive position and ultimately their performance.[28]

Hypercompetition describes competition that is excessive such that it creates inherent instability and necessitates constant disruptive change for firms in the competitive landscape.

NETFLIX IGNITES GROWTH THROUGH INTERNATIONAL EXPANSION, BUT SUCH GROWTH ALSO FIRES UP THE COMPETITION

Netflix has been pursuing a typical international strategy by developing strong capabilities in technological innovation domestically and then using that base technology to expand abroad. Its technology is focused on understanding customer viewing patterns and providing content that matches that pattern as well as having a broad selection of content produced by network television and movie studios in addition to its own original content, which has become a strong force in the market (see examples in Chapter 1 and Chapter 4).

However, Netflix has reached a near saturation point in the domestic U.S. market. As an obvious extension, it has begun to extend its services abroad in countries that are close culturally and geographically to its U.S. customer base, such as Canada, Nordic, and Latin American countries. Although it is trying to foster more growth by partnering with firms such as Marriott for access to its hotel entertainment systems, Netflix's primary growth is coming from its international expansion efforts which allow it to share its cost across a broader range of countries and a larger subscriber base. In the fourth quarter of 2014, Netflix added 1.9 million U.S. streaming subscribers, but this was down from 2.4 million in the period a year earlier. However, overall in 2014 it added 4.3 million streaming customers, exceeding its 4 million forecast, primarily driven because foreign markets grew faster than expected. Netflix already has some services in approximately 50 countries. In the first quarter of 2015, it expanded into Australia and New Zealand. It is also exploring the opportunity of obtaining a government license to offer its streaming services in China.

Getty Images

Netflix's international growth strategy has some confounding complexities. First, Netflix must seek global licenses with its contract video and movie content providers. However, the content providers want to distribute their content in international markets as well, and thus Netflix will have to pay more for the content to get a global license, in addition to the costs of initial start-up and licensing in new foreign countries. This drives up the costs of pursuing its global strategy, at least in the short term.

Second, as it pursues its global streaming strategy, there are both increased domestic competition for subscriber growth as well as new entrants into foreign markets as they see the opportunity that Netflix is trying to realize. For example, Alibaba, whose home country is China, recently indicated that it would start up its own video streaming service and even contracted to produce original content, copying Netflix's strategy (see the opening case in Chapter 1). Interestingly, there is some speculation that Alibaba, given its huge size and recent cash from an initial public offering (IPO), would seek to purchase Netflix as a way of fostering its entry push into the U.S. In addition, Netflix has many other domestic streaming competitors, including Amazon and Hulu.

13-2 Innovation

In his classic work, *The Theory of Economic Development*, Joseph Schumpeter argued that firms engage in three types of innovative activities.[18] **Invention** is the act of creating or developing a new product or process. **Innovation** is a process used to create a commercial product from an invention. Thus, innovation follows invention[19] in that invention brings something new into being while innovation brings something new into use. Accordingly, technical criteria are used to determine the success of an invention whereas commercial criteria are used to determine the success of an innovation.[20] Finally, **imitation** is the adoption of a similar innovation by different firms. Imitation usually leads to product standardization, and imitative products often are offered at lower prices but without as many features. Entrepreneurship is critical to innovative activity because it acts as the linchpin between invention and innovation.[21]

For most companies, innovation is the most critical of the three types of innovative activities. The reason for this is that while many companies are able to create ideas that lead to inventions, commercializing those inventions sometimes proves to be difficult.[22] Patents are a strategic asset, and the ability to regularly produce them can be an important source of competitive advantage, especially when a firm intends to commercialize an invention and when a firm competes in a knowledge-intensive industry (e.g., pharmaceuticals).[23] In a competitive sense, patents create entry barriers for a firm's potential competitors.[24]

Peter Drucker argued that "innovation is the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual."[25] Moreover, Drucker suggested that innovation is "the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth."[26] Thus, entrepreneurship and the innovation resulting from it are critically important for all firms seeking strategic competitiveness and above-average returns.

The realities of global competition suggest that, to be market leaders, companies must regularly innovate. This means that innovation should be an intrinsic part of virtually all of a firm's activities. Recent work found that the word 'innovation' appeared 33,000 times in U.S. firms' quarterly and annual reports suggesting the importance of innovation to firms' success.[27] Moreover, firms should recognize the importance of their human capital to efforts to innovate.[28] Thus, as this discussion suggests, innovation is a key outcome firms seek through entrepreneurship, and it is often the source of competitive success, especially for companies competing in highly competitive and turbulent environments.[29]

13-3 Entrepreneurs

Entrepreneurs are individuals, acting independently or as part of an organization, who perceive an entrepreneurial opportunity and then take risks to develop an innovation and exploit it. Entrepreneurs can be found throughout different parts of organizations—from top-level managers to those working to produce a firm's products.

Entrepreneurs tend to demonstrate several characteristics: they are highly motivated, willing to take responsibility for their projects, self-confident, and often optimistic.[30] In addition, entrepreneurs tend to be passionate and emotional about the value and importance of their innovation-based ideas.[31] They are able to deal with uncertainty and are more alert to opportunities than others.[32] To be successful, entrepreneurs often need to have good social skills and to plan exceptionally well (e.g., to obtain venture capital).[33] Entrepreneurship entails much hard work if it is to be successful, but it can

tion is the act of
g or developing a new
ct or process.

ation is a process
o create a commercial
ct from an invention.
nnovation follows
on in that invention
something new into
while innovation brings
hing new into use.

tion is the adoption
nilar innovation by
nt firms.

preneurs are
uals, acting
ndently or as part
rganization, who
ve an entrepreneurial
unity and then take
develop an innovation
ploit it.

also be highly satisfying—particularly when entrepreneurs recognize and follow their passions. According to Jeff Bezos, Amazon.com's founder:

"One of the huge mistakes people make is that they try to force an interest on themselves. You don't choose your passions; your passions choose you."[34]

Evidence suggests that successful entrepreneurs have an entrepreneurial mind-set that includes recognition of the importance of competing internationally as well as domestically.[35] The person with an **entrepreneurial mind-set** values uncertainty in markets and seeks to continuously identify opportunities in those markets that can be pursued through innovation.[36] Those without an entrepreneurial mind-set tend to view opportunities to innovate as threats.

Astrid Stawiarz/Getty Images

Display of Warby Parker's popular eyewear, the product of Fast Company's most innovative company in 2015.

Because it has the potential to lead to continuous innovations, an individual's entrepreneurial mind-set can be a source of competitive advantage for a firm. Entrepreneurial mind-sets are fostered and supported when knowledge is readily available throughout a firm. Indeed, research shows that units within firms are more innovative when people have access to new knowledge.[37] Transferring knowledge, however, can be difficult, often because the receiving party must have adequate absorptive capacity (or the ability) to understand the knowledge and how to productively use it.[38] Learning requires that the new knowledge be linked to the existing knowledge. Thus, managers need to develop the capabilities of their human capital to build on their current knowledge base while incrementally expanding it.[39]

Some companies are known to be highly committed to entrepreneurship, suggesting that many working within them have an entrepreneurial mind-set. In 2015, *Fast Company* identified Warby Parker as the most innovative company, with Apple, Alibaba, Google, and Instagram rounding out the top five most innovative firms.[40] Warby Parker was chosen as the most innovative company in 2015 for developing the first top 'made-on-the-Internet brand of popular eyewear. After only five years, its annual revenue exceeds $100 million. Over time, the cofounders believe that their brand can be used for other products in addition to eyewear.[41].

13-4 International Entrepreneurship

International entrepreneurship is a process in which firms creatively discover and exploit opportunities that are outside their domestic markets.[42] Thus, entrepreneurship is a process that many firms exercise at both the domestic and international levels.[43] This is true for entrepreneurial ventures as suggested by the fact that an increasing number of them (perhaps as much as 50 percent) move into international markets early in their life cycle. Large, established companies commonly have significant foreign operations and often start new ventures in international markets, too.[44]

A key reason that firms choose to engage in international entrepreneurship is that, in general, doing so enhances their performance.[45] Nonetheless, those leading firms generally understand that taking entrepreneurial actions in markets outside the firm's home

Entrepreneurial mind-set values uncertainty in markets and seeks to continuously identify opportunities in those markets that can be pursued through innovation.

International entrepreneurship is a process in which firms creatively discover and exploit opportunities that are outside their domestic markets.

Strategic **Focus**

ferent Strategic Rationales Driving Cross-Border Acquisitions

true for acquisitions between firms headquartered in the nation, a clear strategic rationale should be the founda- for all cross-border acquisitions. The decision to acquire a pany should be carefully identified, examined, and agreed by key decision makers throughout the firm prior to final- an acquisition decision. The most successful acquisitions, ding cross-border ones, are products of a rational decision ess that is grounded in careful analysis of a proposed action with its strategic rationale as a guiding force.

he strategic rationale sometimes finds firms deciding to ire ownership percentages of target firms to see if a full isition is warranted at a later date. This seems to be the tion with Alibaba Group Holding Limited, the Chinese- d company that is the world's largest e-commerce plat- as measured by volume of transactions. Today though, a remains the firm's primary focus. Saying that the firm t absolutely globalize and it must be a successful effort," ba's CEO has committed the firm to thinking globally taking actions accordingly. With the strategic rationale ecoming more global" as a driver, the firm is acquiring s of firms outside its home market, including its 9 percent hase of U.S. online retailer Zulily, Inc. and its investments obile messaging app-maker Tango, also a U.S. firm. The wing statement describes the rationale or logic driving ba's acquisitions:

have made, and intend to continue to make, strategic stments and acquisitions to expand our user base, enhance loud computing business, add complementary products and nologies and further strengthen our ecosystem."

e some of Alibaba's strategic acquisitions will place in China, a host of others will be cross-border sactions.

n other cases, altering a firm's competitive scope provides ategic rationale for cross-border acquisitions. For exam- based in Oxford, England, Circassia Pharmaceuticals PLC ntly acquired Swedish-listed Aerocrine AB. Historically, assia competed with a laser-like focus on a single tech- gy platform used to produce allergy vaccines. Aerocrine asthma-diagnostic company. Thus, the acquisition s Circassia moving into the asthma market. According to assia's CEO, this transactions moves the firm closer to its of becoming "a self-sustaining specialty biopharmaceutical pany focused on allergy and asthma."

Based in Spain, Banco Popular Español S.A. is pursuing acquisitions outside its home market. The bank's CEO noted that the rationale for this action is to prevent the firm from being too dependent on a single economy when that economy suffers from an economic downturn. In his words:

"In future crises, we would like the bank to be more diversified so we don't have the same level of dependence on a single economy that we have now. This will be a limited diversification, mainly in Latin America and done in a very gradual way over time without rushing."

Thus, it seems that the bank is committed to carefully examine each target before concluding that it should be acquired.

Zulily.PNG

Alibaba has taken an ownership position in U.S.-based Zulily (an e-commerce company) for the purpose of becoming a more global firm.

In mid-2015, Altice SA, a Luxembourg-based cable-and-telecom company controlled by French cable investor Patrick Drahi, was in advanced talks to buy U.S. firm Suddenlink in a transaction valued at between $8 and $10 billion. Already possessing communications companies from France to the Caribbean, many of which were acquired, adding Suddenlink to the fold would result in Altice being one of the world's largest cable and broadband market companies. An analyst captures Drahi's rationale for the string of cross-border acquisitions Altice has completed and intends to complete in the future in the following manner:

"Mr. Drahi has been betting that the future of the telecom industry lies in combining cable and broadband operators with mobile companies to offer clients higher-priced bundles combining television, broadband, fixed telephony, and mobile services."

The high degree of fragmentation in the global telecommunications market seems to yield opportunities for aggressive investors, such as Drahi, to gain value by consolidated firms on a global basis, using cross-border acquisitions in part to do so.

Thus, multiple reasons drive the decision to complete cross-border acquisitions. As we've noted, we can expect the most successful of these transactions, including the ones described here, to be based on a strong strategic rationale.

Sources: R. Bender, S. Ramachandran, & S. Raice, 2015, Altice in advanced talks to buy cable company Suddenlink, *Wall Street Journal Online*, www.wsj.com, May 19; J. Neumann, 2015, Spain's Banco Popular seeking acquisitions abroad, *Wall Street Journal Online*, www.wsj.com, May 18; D. Roland, 2015, U.K. biotech Circassia moves into asthma with two acquisitions, *Wall Street Journal Online*, www.wsj.com, May 15; C. Tejada, 2015, Alibaba to focus on expansion abroad, CEO says, *Wall Street Journal Online*, www.wsj.com, May 14; M. J. de la Merced, 2014, Alibaba's acquisition strategy focused: Focused largely on China and mobile, *New York Times*, www.nytimes.com, May 7.

Firms should recognize that cross-border acquisitions such as the ones discussed in the Strategic Focus are not risk free, even when a strong strategic rationale undergirds the completed transactions. China, for example, is a country with political and legal obstacles that increase acquisition risk.[30] Being able to conduct an effective due-diligence process when acquiring a company in China can be difficult where the target firm's financial data and corporate governance practices may lack complete transparency.[31] For instance, believing that the firm was going to be "its Chinese business card," Caterpillar, an earthmoving equipment company, acquired Chinese manufacturing company Siwei. After completing the purchase however, Caterpillar said it discovered "deliberate, multi-year, coordinated accounting misconduct at Siwei." Following complicated efforts to sort through everything, Caterpillar had to write down 86 percent of its $677 million purchase of Siwei.[32] Thus, firms must carefully study the risks as well as the potential benefits when contemplating cross-border acquisitions.

7-2c Cost of New Product Development and Increased Speed to Market

Developing new products internally and successfully introducing them into the marketplace often requires significant investment of a firm's resources, including time, making it difficult to quickly earn a profitable return.[33] Because an estimated 88 percent of innovations fail to achieve adequate returns, concerns exist in firms about their ability to achieve adequate returns from the capital they invest to develop and commercialize new products. Potentially contributing to these less-than-desirable rates of return is the successful imitation of approximately 60 percent of innovations within four years after the patents are obtained. These types of outcomes may lead managers to perceive internal product development as a high-risk activity.[34]

An acquisition strategy is another course of action a firm can take to gain access to new products and to current products that are new to it. Compared with internal product development processes, acquisitions provide more predictable returns as well as faster market entry. Returns are more predictable because the performance of the acquired firm's products can be assessed prior to completing the acquisition.[35]

WelchAllyn is a leading global manufacturer of medical diagnostic equipment. With a desire to provide diagnostic tools to doctors and nurses through which they can provide better healthcare to patients, WelchAllyn is completing a number of acquisitions to adapt to the rapidly changing health care environment. Rather than relying on internal innovation to produce all the new products it wants to sell, this firm has chosen to acquire solid companies through which it can quickly gain access to products that are related to