

CASE STUDY - ALIBABA

The primary subject matter of this case concerns the challenging nature of international business. Secondary issues examined include unique business strategies and issues of corporate governance.

Summary

The Chinese company, Alibaba, is changing the way global business is conducted. This fast growing B2B company has benefited from the explosion in information technology and has developed a unique business model. This case examines Alibaba's success and how the company is unique from most Western companies. With the explosive growth of Alibaba in China, the company is now ready to expand to the rest of the world.

Introduction

Jack Ma is a man on a mission. The Chinese entrepreneur who founded Alibaba and other companies wants to change the way business to business (B2B) is conducted. He wants to develop a platform to support small and medium sized enterprises (SMEs). Alibaba, Taobao, and other Ma creations have already begun to make some wonder how this former English teacher, with an unassuming demeanour, has been so successful, and what the future holds for his companies and the future of B2B activity.

Humble beginnings

The founder of Alibaba, Jack Ma grew up in the Chinese city of Hangzhou, a city known for its beauty. Hangzhou has been consistently rated the most liveable city in China for a number of years. Ma began his work life as a child, acting as a tour guide in order to improve his proficiency in English. Ma's academic skills in math and science were poor, however, he possessed a talent for languages. After graduating from the Hangzhou Normal College, Ma began teaching English. Not satisfied with the salary of an English teacher, Ma began his own translation business. After a trip to the United States and gaining experience with computers and the Internet, Ma created China's Yellow Pages company. Ma then started Alibaba in his small apartment and has grown the Alibaba Group into a collection of fast-growth companies including Taobao, Alipay and Alisoft. While still a humble and frugal man, Jack Ma is building

a strong competitive force in the information - based global economy. He is known for not thinking about today or tomorrow, but thinking decades ahead. Jack Ma has a long-term focus , which has served him well in becoming one of China's wealthiest individuals. His rise from poverty to prosperity began with a vision, upon which he is constantly expanding.



The name

Though the origin has a colorful story, the company offers the short version on its website, explaining it's a "well-known" name and easily pronounced. In the story "Ali Baba and the Forty Thieves," from the collection "One Thousand and One Nights," a chamber of treasures is opened with the words, "Open sesame."

"E-commerce is global so we needed a name that was globally recognized," the website states. "Alibaba brings to mind 'open sesame,' representing that our platforms open a doorway to fortune for small businesses."

But back in 2006, the former English teacher explained in detail how he chose the name in a San Francisco coffee shop.

"And then a waitress came, and I said do you know about Alibaba? And she said yes," Ma told CNN's [Talk Asia](#) show in 2006. "I said what do you know about Alibaba, and she said 'Open Sesame.' And I said yes, this is the name! Then I went onto the street and found 30 people and asked them, 'Do you know Alibaba'? People from India, people from Germany, people from Tokyo and China... They all knew about Alibaba."

"Alibaba -- open sesame. Alibaba -- 40 thieves," Ma said. "Alibaba is not a thief. Alibaba is a kind, smart business person, and he helped the village. So...easy to spell, and global know. Alibaba opens sesame for small- to medium-sized companies. We also registered the name AliMama, in case someone wants to marry us!".

The Yahoo-Alibaba connection

Yahoo was the first company to set up shop in China in 1999. In 2005, it paid 1\$ billion and handed over its China operations to Alibaba in return for a 40% equity stake in the Chinese company. This action was heralded by both companies. The cordial relationship between the top gurus at Yahoo and Alibaba was not without problems. Over the years privacy, censorship, and human rights issues became sticking points that led to Yahoo's friendly exchange of cash for ownership rights in Alibaba.

On September 14, 2009 Yahoo sold 150\$ million worth of Alibaba shares in part because of a Chinese law that gives the government of China regulatory oversight over mergers that "involve acquisitions of Chinese companies or foreign businesses investing in Chinese companies' operations". At the same time Jack Ma sold 13 million of his shares, slightly less than 5% of his holdings in Alibaba for about 35\$million. It appears that while Yahoo had a good relationship with Alibaba, it did not wish to assume the geopolitical risk imposed by the Chinese government. The stock sale was positively viewed by the Alibaba Group because they wanted Alibaba.com to have broader ownership.

Good relations quickly soured when Alibaba sharply criticized Yahoo for its public support of Google after that company's conflict with the Chinese government over cyber attacks. The attacks stemmed from the governments censoring of Google's search engine results. What happened is that Yahoo aligned itself with Google in

condemning the cyber attacks it experiences as a result of hackers in China. John Spelich, the International Affairs chief at Alibaba, says Yahoo's support of Google was "reckless, given the lack of facts in evidence". By criticizing Yahoo, Alibaba strained one of the most prominent corporate alliances between a Chinese and an American firm in the Internet industry.

Alibaba and Yahoo have different positions on human rights in China. Yahoo's management suffered a major smear of its public image when it disclosed account information in 2004 to Chinese authorities about journalist Shi Tao, one of its email users. The information was used to convict Mr. Shi, who was sent to prison for 10 years, for divulging a government document related to a politically sensitive anniversary. Yahoo's co-founder apologized personally to the family of Shi-Tao. Alibaba, on the other hand, flatly stated that it would comply with the Chinese government should there be a conflict between a Yahoo China email user and Beijing in the future. Jack Ma said at the time, "I'm not a political group, I'm a businessman".

Despite these frustration, Yahoo retains its stake in Alibaba and Yahoo CEO, Carol Bartz, who took over the company in 2009, said that she has no reason to sell further interests in Alibaba. Yahoo will retain its 39% share in the parent company - Alibaba Group.

Alibaba Group's

Mission

Alibaba Group's mission is to make it easy to do business anywhere. Alibaba Group operate leading online and mobile marketplaces in retail and wholesale trade, as well as cloud computing and other services. Alibaba provide technology and services to enable consumers, merchants, and other participants to conduct commerce in our ecosystem.

The Alibaba culture is about championing small businesses. They operate an ecosystem where all participants – consumers, merchants, third-party service providers and others – have an opportunity to prosper.

Alibaba Group's Values

Six values are:

Customer First. The interests of our community of buyers and sellers must be our first priority.

Teamwork. We believe teamwork enables ordinary people to achieve extraordinary things.

Embrace Change. In this fast-changing world, we must be flexible, innovative and ready to adapt to new business conditions in order to survive.

Integrity. We expect our people to uphold the highest standards of honesty and to deliver on their commitments.

Passion. We expect our people to approach everything with fire in their belly and never give up on doing what they believe is right.

Commitment. Employees who demonstrate perseverance and excellence are richly rewarded. Nothing should be taken lightly as we encourage our people to “work happily, and live seriously.”

The best way to understand Alibaba is as a mix of Amazon.com, eBay and PayPal with a dash of Google thrown in, all with some uniquely Chinese characteristics.

Unlike Amazon, which buys goods from suppliers and sells them to customers, Alibaba has always acted as a middleman, connecting buyers and sellers and facilitating transactions between them. While it isn't an auction company, its middleman role is similar to the one played by eBay.

Taobao, Alibaba's biggest website, is like a gigantic Chinese bazaar with about 760 million product listings from 7 million sellers. Merchants don't pay to sell products on Taobao--and that fee-free model is a big part of its appeal in China. Instead, they pay Alibaba for advertising and other services to allow them to stand out from the crowd. Much like on Google, the ads from merchants appear with Taobao's product-search results.

While Taobao is mostly for small merchants, Tmall, another shopping site run by Alibaba, is designed for bigger merchants, including some well-known brands such as Nike and Gap. Earlier this year, Apple Inc. opened its store on Tmall. Unlike Taobao, Tmall, which has about 70,000 merchants, charges each seller a deposit, annual fee and a commission fee on each transaction.

What sets Alibaba apart is size. The company has said Taobao and Tmall account for more than half of all parcel deliveries in China. By one measure, Alibaba has already surpassed U.S. e-commerce firms. In 2012, the combined transaction volume of Taobao and Tmall topped one trillion yuan (\$162 billion), larger than the 2012 totals for Amazon and eBay combined.

With the global recession decreasing the demand for Chinese made goods, as well as good made elsewhere, Alibaba has responded by reducing the cost to its Gold Suppliers. After cutting Gold Supplier fee by 60% the number of subscribers rose dramatically. Ma decided to sacrifice short-term profitability for long-term sustainability. Alibaba is a publicly traded stock sold on the Hong-Kong Exchange listed in 2007 with an IPO of 1,5\$ billion, the stock price has shown very good performance.

Why investors are often concerned about short-term results, Ma insists on a long-term perspective, and his priority list is a bit unusual by Western standards. Ma places customers first, followed by employees, and places shareholders last. He is not concerned about how the investment community feels about his approach saying that people can always choose not to invest if they disagree with the strategy. Ma states that he wants "shareholders" and not "share traders". He wants investors who share his long-term vision for the company. Jack Ma has a unique perspective concerning stakeholder values and priorities. At a press conference in April 2009 he surprised the audience by apologizing for having made a 39\$ million profit over the previous 12 months. Ma said that because of the world-wide financial crisis his goal was to make no profit. To support this goal, he reduced the fees for transactions by 60%. He wanted to support small and medium sized Chinese businesses so that they could survive the recession by continuing to sell internationally.

Look towards the future

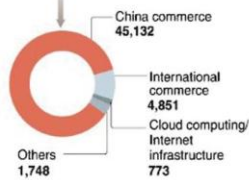
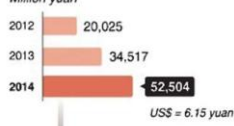
With the global economic slowdown, profits at Alibaba have declined. Chinese exports, as well as from the rest of the world, have declined as global demand has fallen. While some companies would see such an environment as causing a need for reduction, Ma sees it as an opportunity for expansion and is hiring more employees. Ma feels that as travel budgets tighten in the world companies will forgo trade shows and instead seek more online interactions. He has also begun to expand in the opposite direction by creating export to China, a system which allows non-Chinese firms to establish Chinese language storefronts to export their products to China. China's economy has suffered with the rest of the world but its economic growth has remained strong, relative to other countries. There is a strong and growing consumer base in China, and Ma hopes to tap into a part of that growth opportunity as well.

With Alibaba.com as the B2B component, Taobao as the retail equal, and the support functions of Alipay, Alisoft, and HiChina, the Alibaba Group seems well positioned to change global purchasing practices. Jack Ma's success is based on hard work, a strong consumer focus, and a sophisticated knowledge of market needs. He has competed successfully against eBay in China, attributing his success to knowing the Chinese market better, and employing Chinese business practices. As Alibaba seeks to expand globally it will be necessary to maintain this focus and to adopt to the different business and cultural constraints found in the rest of the world.

Alibaba: China's online giant

Established: 1999 Founder: Jack Ma
 Headquarters: Hangzhou, China Employees: Around 20,000

Revenue



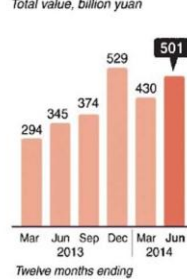
Fast facts

- 279 million annual active buyers
- 14.5 billion products ordered annually
- 188 million monthly mobile active users
- 52 products average annual orders per active buyer
- 8.5 million annual active sellers
- 1,100,000 delivery personnel

Growth of active buyers



Merchandise sales



Discussion questions

- 1/. What do you think of Jack Ma's priority list which places shareholders last? Do you think this approach will work if he seeks capital outside of China? Explain.
- 2/. What are the unique components of Alibaba's business model/ strategy?
- 3/. Many successful companies have controversial or provocative names such as Caterpillar, Gap, Virgin and Yahoo. In what way is the name Alibaba controversial? How does this name advance Alibaba Group's strategy?
- 4/. How would you assess Alibaba Group's reaction to Google's conflict with the Chinese government over its censoring of search engine results?
- 5/. Do you think the future of international business will change as more people become familiar with the Alibaba business model Explain.