

Case Study

IT Business Dot Com

Alibaba. Com

Extracted from Alibaba.com Presentations



Empowering SMEs Worldwide: The Alibaba Story

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Alibaba.com

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Who is Alibaba.com?



• Alibaba is China's leading e-commerce company, operating the world's largest online marketplaces for both international and domestic China trade, Taobao.com, China's largest C2C auction site, Alipay, China's largest online payment gateway, and Yahoo! China, China's leading search engine.

Key Facts

- Established in 1999
- Offices locations: Hangzhou, China (HQ), Hong Kong, Europe (Geneva), USA (Silicon Valley), major cities in China
- 2005 Revenue: approx \$100mm+
- Y-on-Y Growth: 100%
- # of Employees: 3,000+

Awards/Accolades



Recipient of *Forbes Magazine* "Best of the Web" for B2B websites 6 years in a row!



Harvard Business School

Case Study A & B



- #17 in World
- World's Top-Ranked Import and Export Site
- World's Top International Business and Trade Site



Entrepreneur Magazine: "Top Website for Entrepreneurs"



Background



- Founder of Alibaba – Jack Ma
- Launched china's first commercial website
- Prepared 1st website in china - MOFTEC

Alibaba's Vision



Marketplace

让天下没有难做的生意

To Make It Easy To Do Business Anywhere

Community

商人都要用阿里巴巴

*To Be an Essential Partner to All
Businesspeople*

Long Term Vision

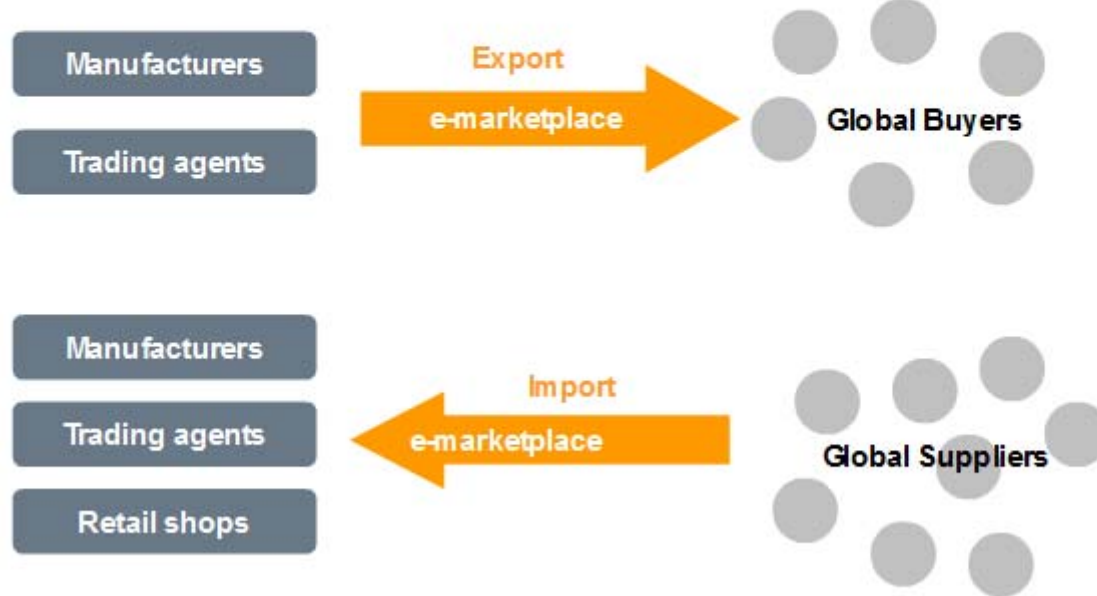
建立一家持续发展“102年”的公司

To Build a Company that Lasts “102 Years”

Global Network at Your Fingertips



A truly global network for importers and exporters of raw materials, component parts and finished goods



World's No.1 Online B2B Marketplace for International & Domestic Trade



Alibaba.com represents a phenomenon which is changing the way SMEs around the world conduct business

Sellers

- > Typically SMEs
- > Ten to a few thousand employees
- > 5,000+ product categories in 30+ industries



International Marketplace
4.4 million registered users ⁽¹⁾



China Marketplace
23.2 million registered users ⁽¹⁾

Buyers

- > Across more than 200 countries
- > Companies of all sizes
- > Diverse end markets

Note:
1. Company data as of Dec 31, 2007

Alibaba.com International



www.alibaba.com

Key Information

- World's largest business-to-business marketplace for global trade
- A world of business opportunities for buyers and sellers
- 2.3 million members (SMEs)
- 200+ countries and territories
- 32 categories

Daily Web Statistics*

- 5 million PVs
- 3,000 new members
- 550,000 unique visitors
- 1300 new companies listed
- 3,800+ new products listed

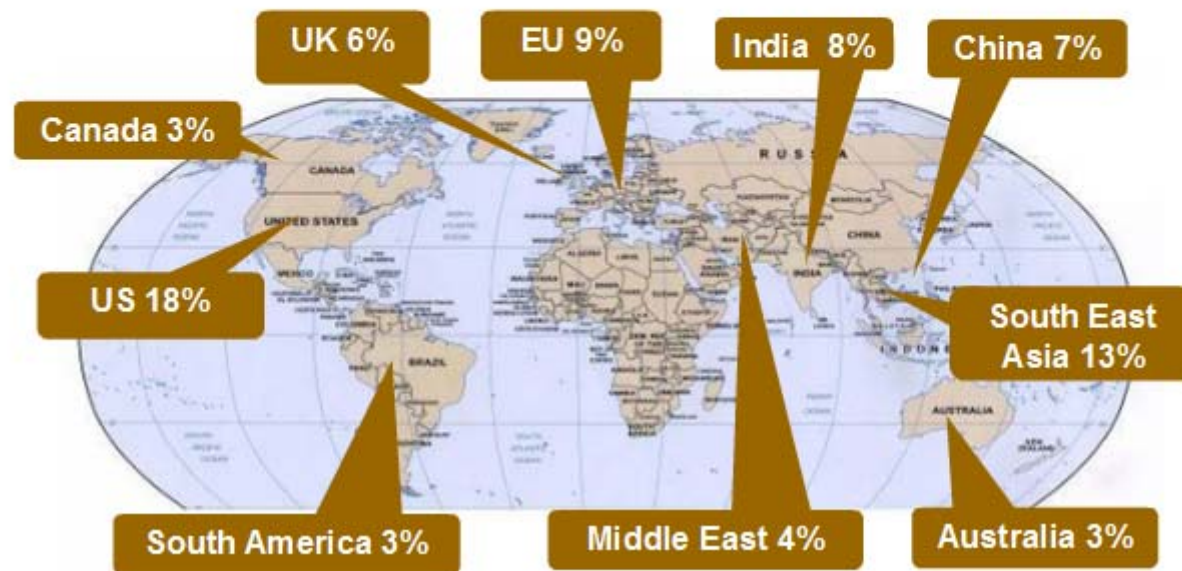
* Company estimate based on average for month of July 2006



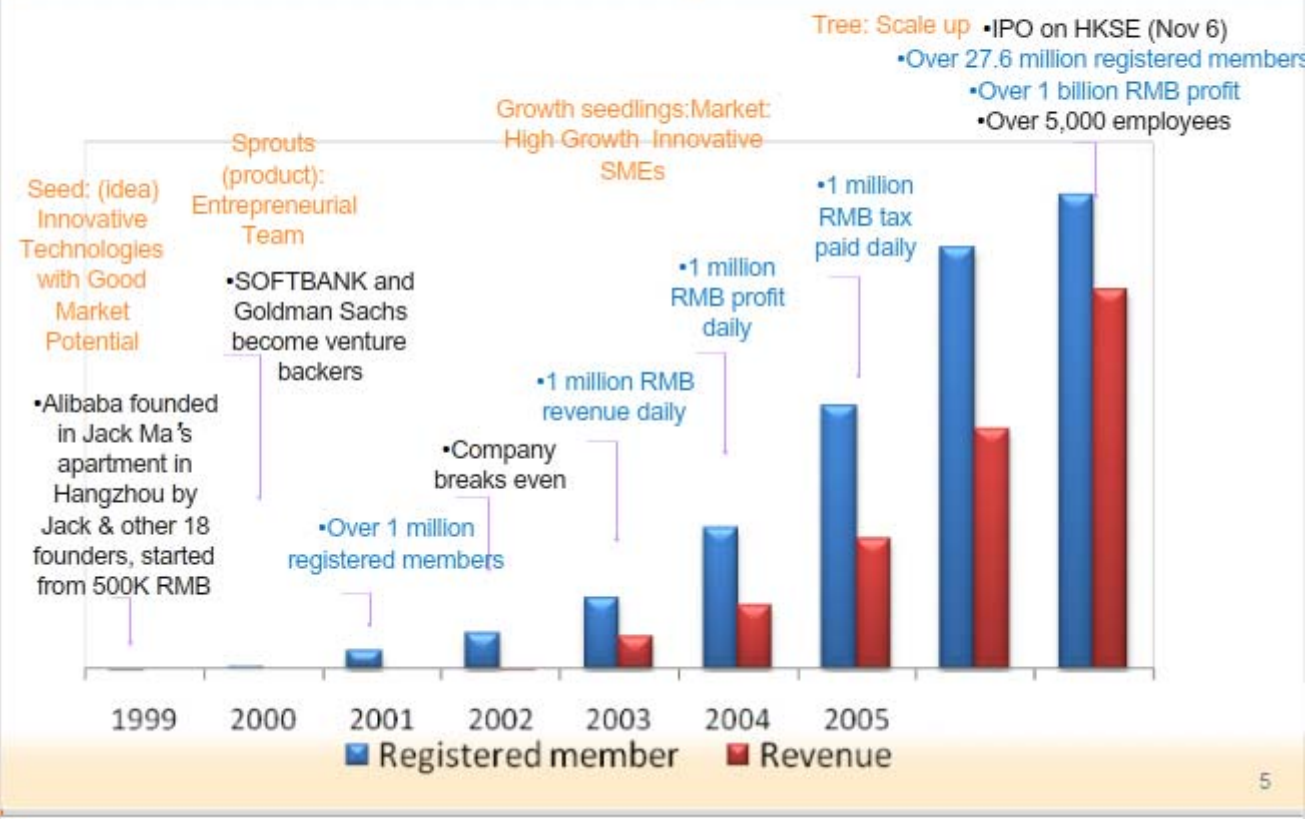
Alibaba.com's International Marketplace



With over 4.4 million registered members from 200 countries & regions, it's truly a global community



Alibaba.com's Growth: a SME Innovation Story



SME : Small and Medium Sized Enterprises

IPO : Initial Public Offering



A Hangzhou Teahouse

- A marketplace provides the “cups, tea and scenic surroundings” to facilitate match-making between buyers and sellers
- Customers bring the products and ideas
- User generated content:
For members, by members, of members

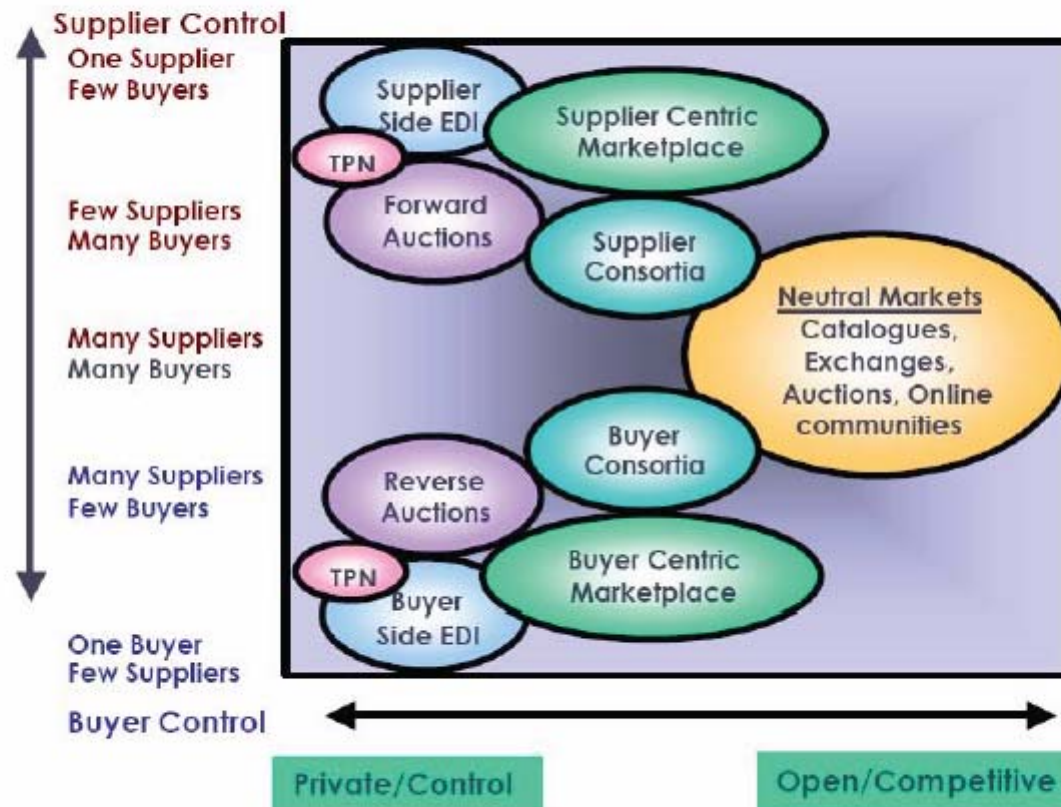


Jack Ma
CEO Alibaba.com

“Attract the shrimps (sic.) and the whales will come.”



E-Marketplaces: Circa 2000 approach



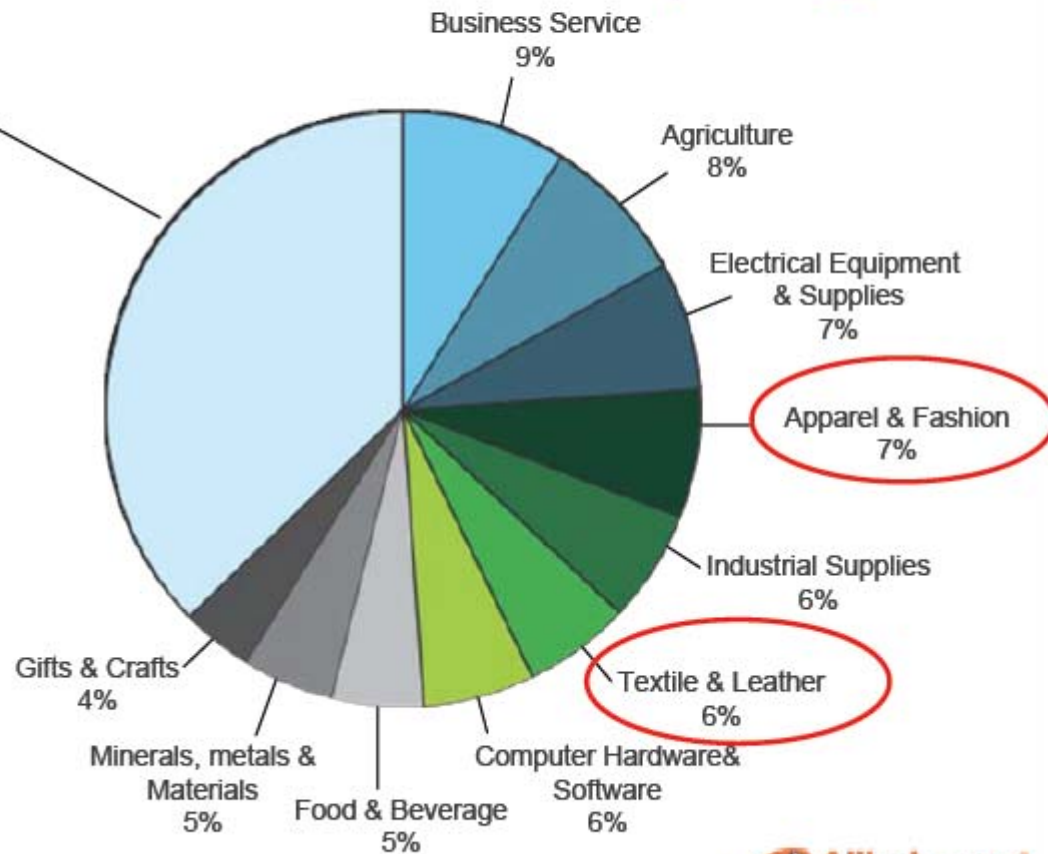
Source: California Management Review

Product categories: 32

Other 22 Categories: 37%

- Automobile
- Chemicals
- Construction & Real Estate
- Electronic Components & Supplies
- Energy
- Environment
- Excess Inventory
- Furniture & Furnishings
- Health & Beauty
- Home Appliances
- Home Supplies
- Lights & Lighting
- Luggage, Bags & Cases
- Office Supplies
- Packaging & Paper
- Printing & Publishing
- Security & Protection
- Sports & Entertainment
- Telecommunications
- Timepieces, Jewelry & Eyewear
- Toys
- Transportation

Top 10 Categories



How online marketplaces can help

- **E-Marketplaces can offer a platform to address buyers' key considerations:**

Breadth and Depth

Trust and Credibility

Quality of Service

Lowest Cost

Traditional Sourcing Work Flow



Average sourcing cycle: 3.3 – 4.2 months

- 52% of time spent searching for/identifying appropriate suppliers
- 20% of time spent on screening/sorting proposals
- 18% of time spent on RFQ development/ RFQ response
- 10% of time spent on contract negotiations

Traditional Sources of Supplier Information

- | | |
|--------------------------------------|-------------------------|
| • Referral (colleagues, associates) | • Industry associations |
| • Trade shows | • Trade directories |
| • Industry magazines, trade journals | • Existing suppliers |

Source: The Aberdeen Group

Sourcing Today

Buyers rate the importance of different sourcing resources

Resource	Ranking
Alibaba.com	1.51
Existing Supplier	1.75
Internet (search, surf, etc)	2.19
Referral (associate, colleague)	2.38
Other Trading Sites	2.53
Trade Shows	2.62
Trade/Buying Agent	2.78
Industry Magazine	3.03
Industry Association	3.16
Trade Directory	3.3
Other sourcing/trade media	3.58

- A survey of Alibaba.com users reflects the shift to e-sourcing has already occurred among some buyer segments
- Traditional media, while still used, is diminishing in importance as the internet becomes the tool of choice
- This trend is likely to continue as e-marketplaces grow in sophistication and functionalities

1 = highest importance
4 = lowest importance

Source: Synovate Research

E-Marketplaces: The Alibaba Approach

P2P

Match.com



+

Romantic Restaurants



=



B2B

Alibaba.com



+

Tradeshows



=



The Alibaba Network



The business model of Alibaba is very simple.

It is to help sellers meet buyers. More specifically, it provides an Internet based business-to-business (B2B) platform where sellers(suppliers / manufactures) can meet buyers (outsourcers / wholesalers) on a global scale.

The company offers two platforms, one in Chinese for Chinese businesses, and another in English for the other international customers.

Customers are both the sellers and the buyers, who are able to post “storefronts” to advertise their products or needs.

Alibaba offers several services. By June of 2007, Alibaba had over 19.8 million registered users, with 16.6 within its Chinese market place. 219,098 of these 19.8 users where paying members.

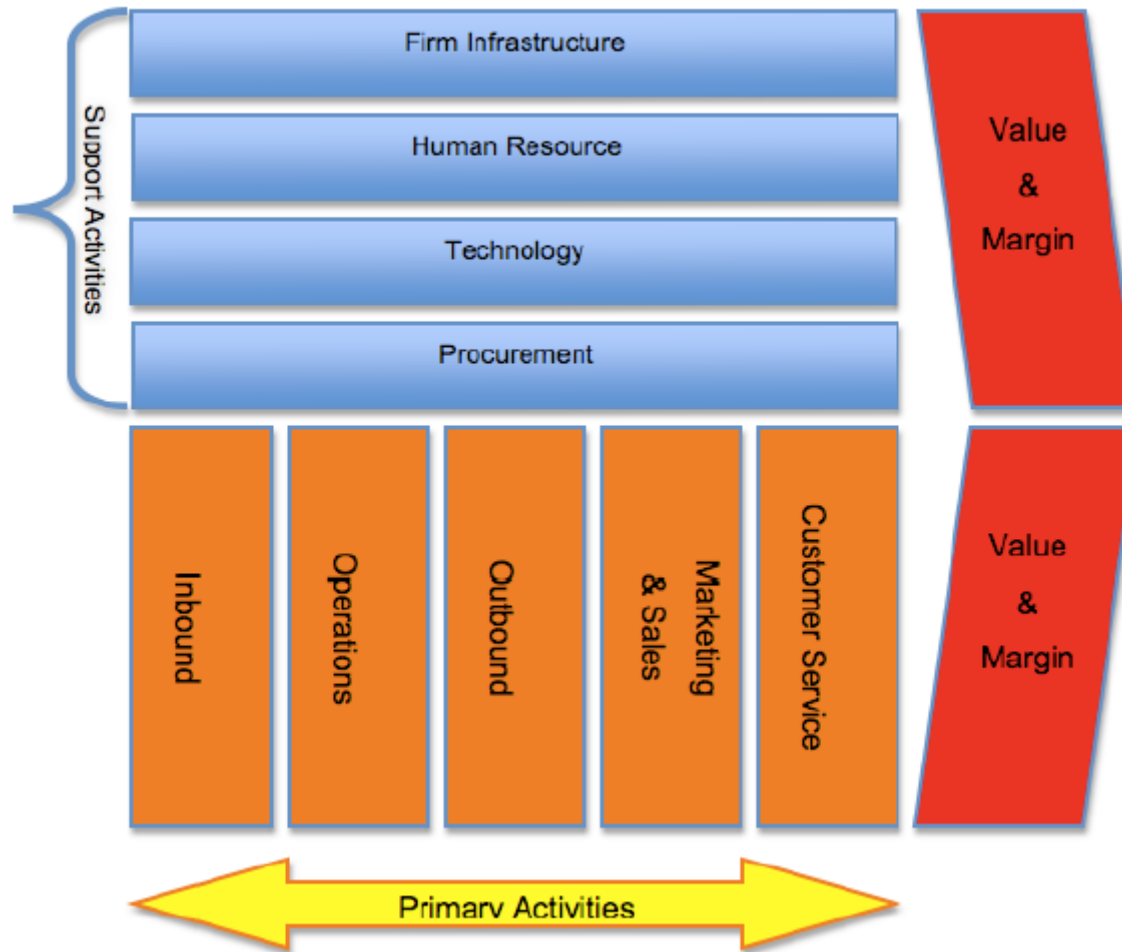
As stated by Alibaba, the workflow includes:

- 1. Suppliers and buyers post their listings, matching the inputs from the company's strategic perspective.**
- 2. Listings are searched, contacts are made, and information is exchanged between the suppliers and buyers. This will often include product specifications and capabilities.**

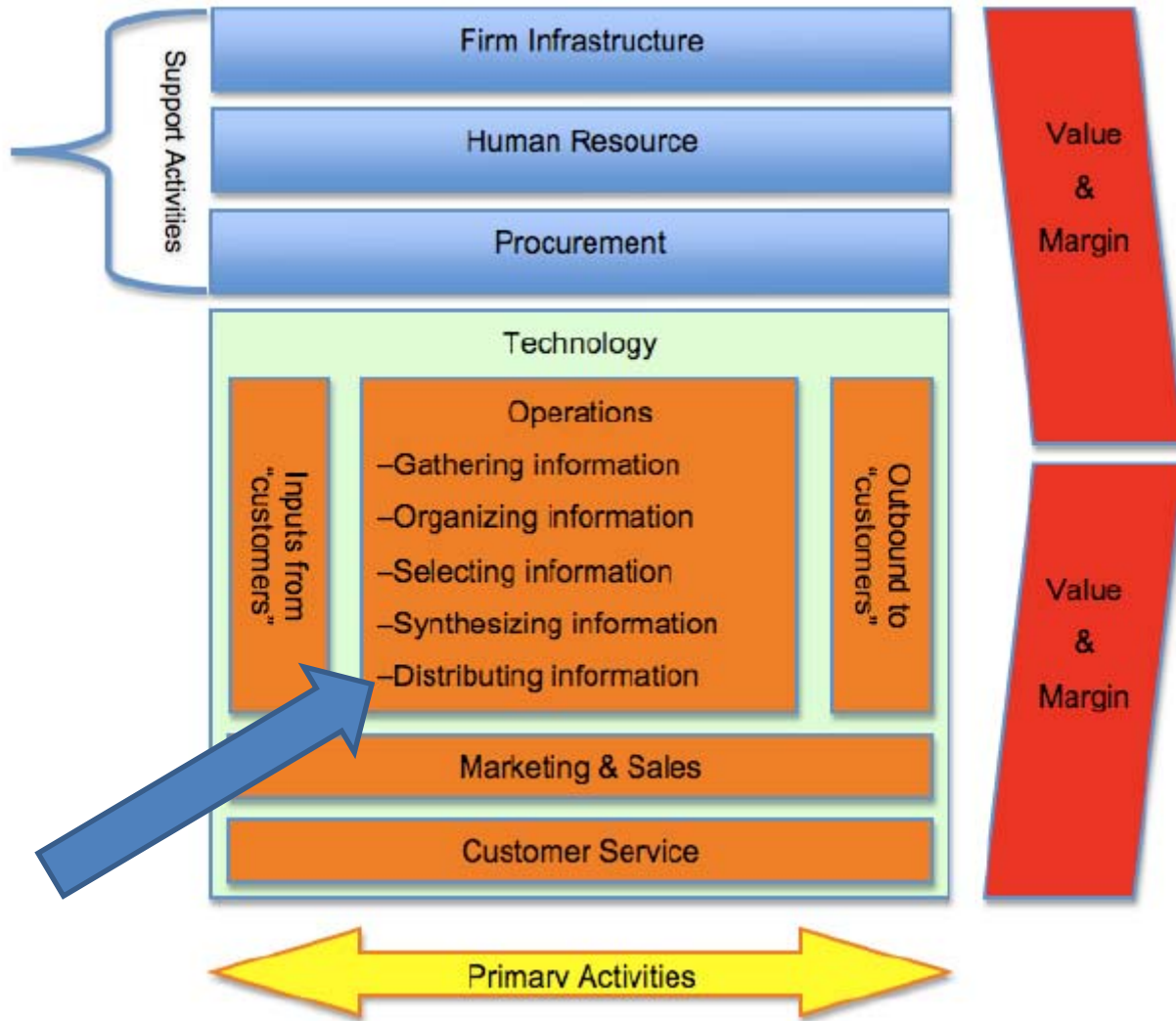
This corresponds to the information manipulation the company's servers and software use to generate the value for the customers.

- 3. Customers then negotiate with each other, which is the "outbound" part of the workflow.**
- 4. All of the communications for suppliers and buyers is enabled through tools within Alibaba's software.**

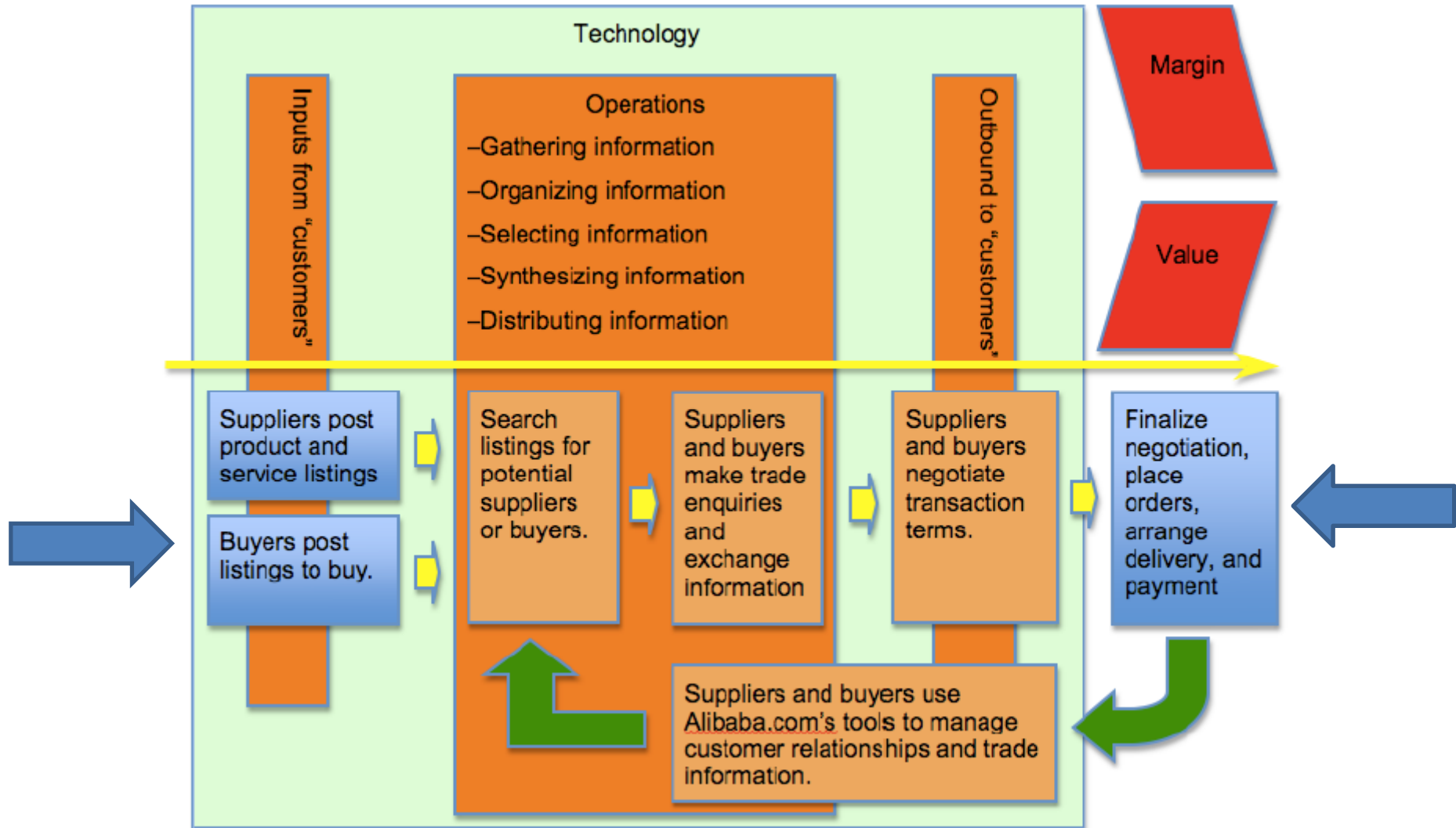
Traditional Value Chain Model



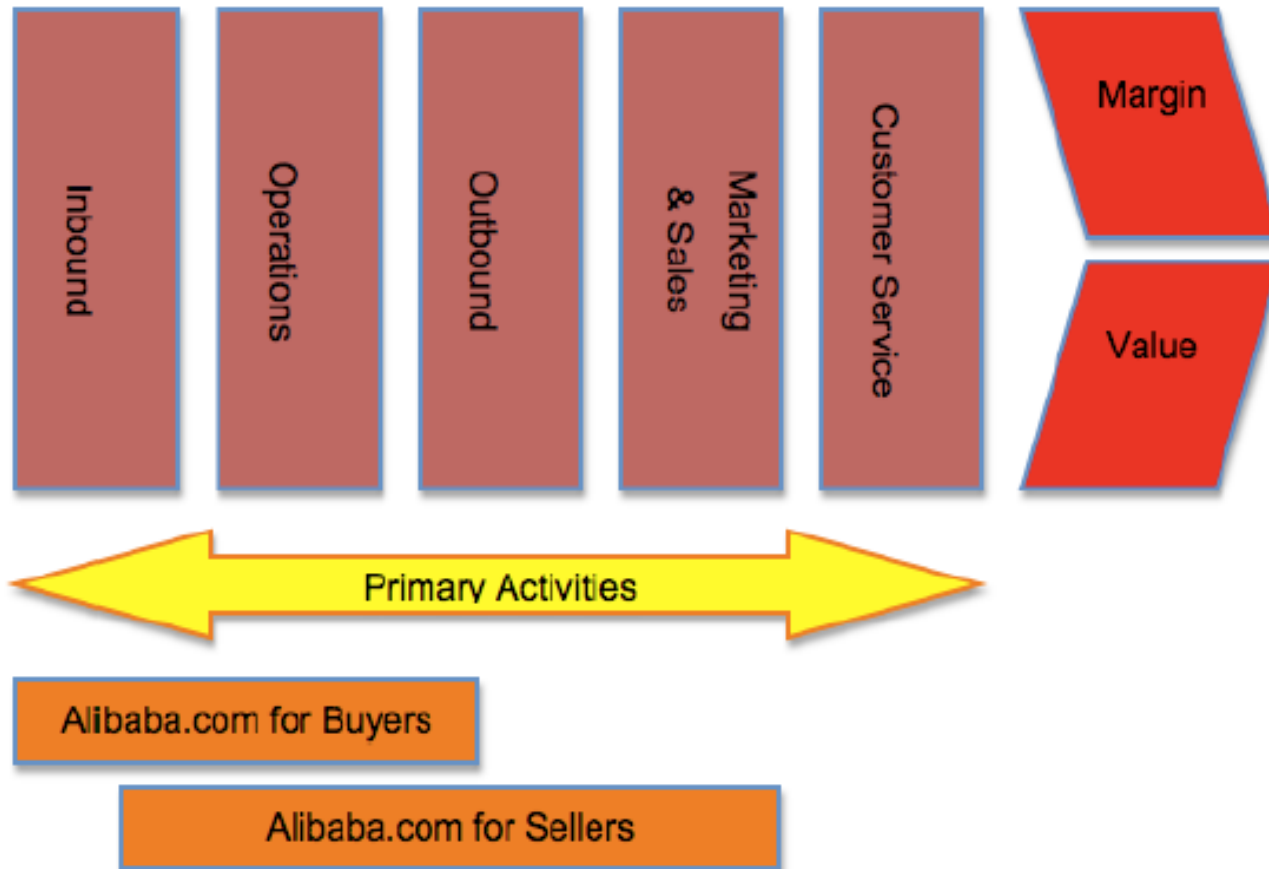
New Alibaba Value Chain Model



Environments of Value Chain Model



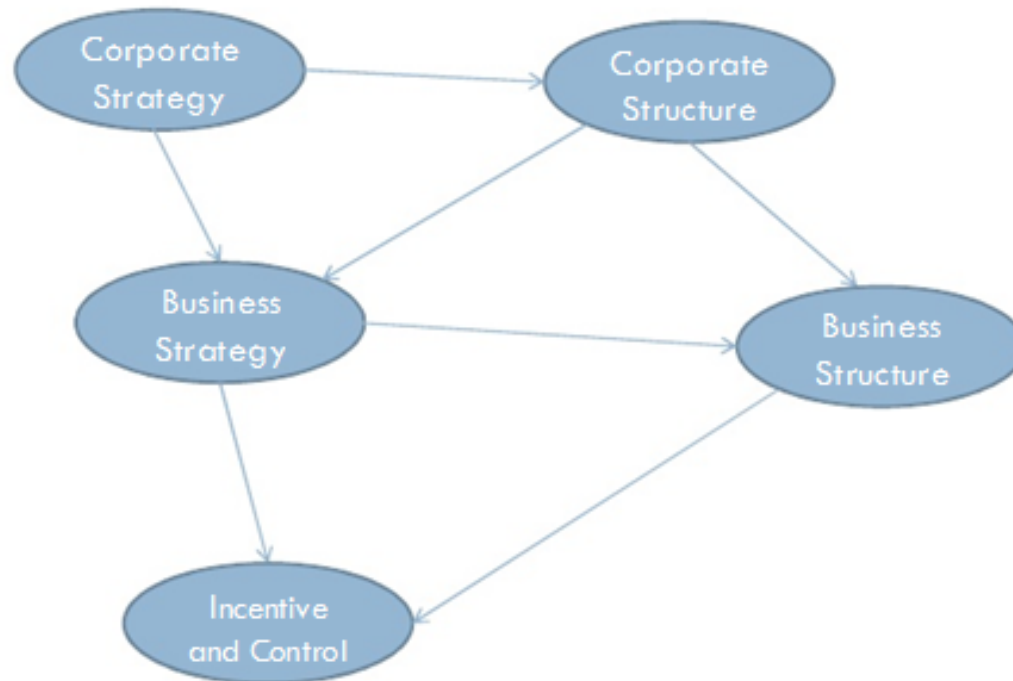
Traditional Value Chain Model and Portal Site



Case analysis . . .

- Alibaba.com corporation
 - China's leading E-commerce Company
- Focused on various Business Models
 - B 2 B
 - B 2 C
 - C 2 C
- Captured Market Share of 69.04 %

MODEL OF STRATEGY EXECUTION



Corporate level Strategy

Key components	Major Decision or Issue
Portfolio Analysis	<ul style="list-style-type: none">• Right mix of business• Cash generators and cash users,• Positioning the company for growth• Stable returns vs. risk taking and high returns .• Eliminating 'deadwood'.
Diversification	<ul style="list-style-type: none">• Analysis of industry attractiveness• Return on invested capital.• Integration of acquisitions.
Resource allocation to business	<ul style="list-style-type: none">• Internal vs. external source of investment capital.• Performance expectations of different business.• Review of business performance and future allocation of resource.

Business Strategy

	Key Issues
Industry Analysis	<ul style="list-style-type: none">•Size/Concentration of Industry•Number of Strategic Group(Market Segmentation) within the Industry.•Power of Buyer or Customer.•Power of Suppliers to Industry.•Number of Substitute of Products.•Rivalry within the Industry.
Competitor Analysis	<ul style="list-style-type: none">•Competitors Resource and Capabilities.•Competitors Size and Market Power.•Competitors Strategies.•Competitors previous Defensive and Offensive move
Resource and Capabilities	<ul style="list-style-type: none">•Our own Resource ,Tangible and Intangible.•Our Competitive Capabilities.•Existence of Core Competency.

Vision



- To Last 102 Years
- To be one of the world's top 10 Internet Sites
- To be essential partner for all business people

Mission

To make it easy to do business anywhere.



Customer First

The interests of our community of users and paying members must be our first priority.



Team work

We expect our employees to collaborate as a team. We encourage input from our employees in the decision-making process, and expect every employee to commit to the team's objectives.



Embrace Change

We operate in a fast-evolving industry. We ask our employees to maintain flexibility, continue to innovate and adapt to new business conditions and practice.

Passion

Our employees are encouraged to act with passion whether it is serving customers or developing new services and products.

Commitment

Our employees have a dedicated focus and commitment to understanding and delivering on the needs of Chinese and global SMEs.

PHASE I

1999 TO DOTCOM BUBBLE

Case Analysis . .

- ▣ Raised money from Venture Capitalist
- ▣ Platform for Trade – B2B
- ▣ 2 lac members at the end of year
- ▣ Attracted other companies into e-Commerce
- ▣ Stood hard in dotcom bubble

Objectives



- Gather Work Force
- Build Customer Base
- Establish Brand Name

Marketing



- Customization
- Segmentation and Targeting
- Delivering Customer Value
- Free Services
- Alibaba China was launched in 1999 was a website in Chinese language serving domestic B2B trade in China.
- Alibaba International was an english website which connected to a number of Chinese SME's It had around 2.5 million registered users around 200 countries in 2007.

Operational

- Service Design
- Buyers and Sellers
- SME focused

Finance



- ▣ Debt Fund Raising
 - ▣ Venture Capitalist
 - ▣ Soft Bank

Human Resources



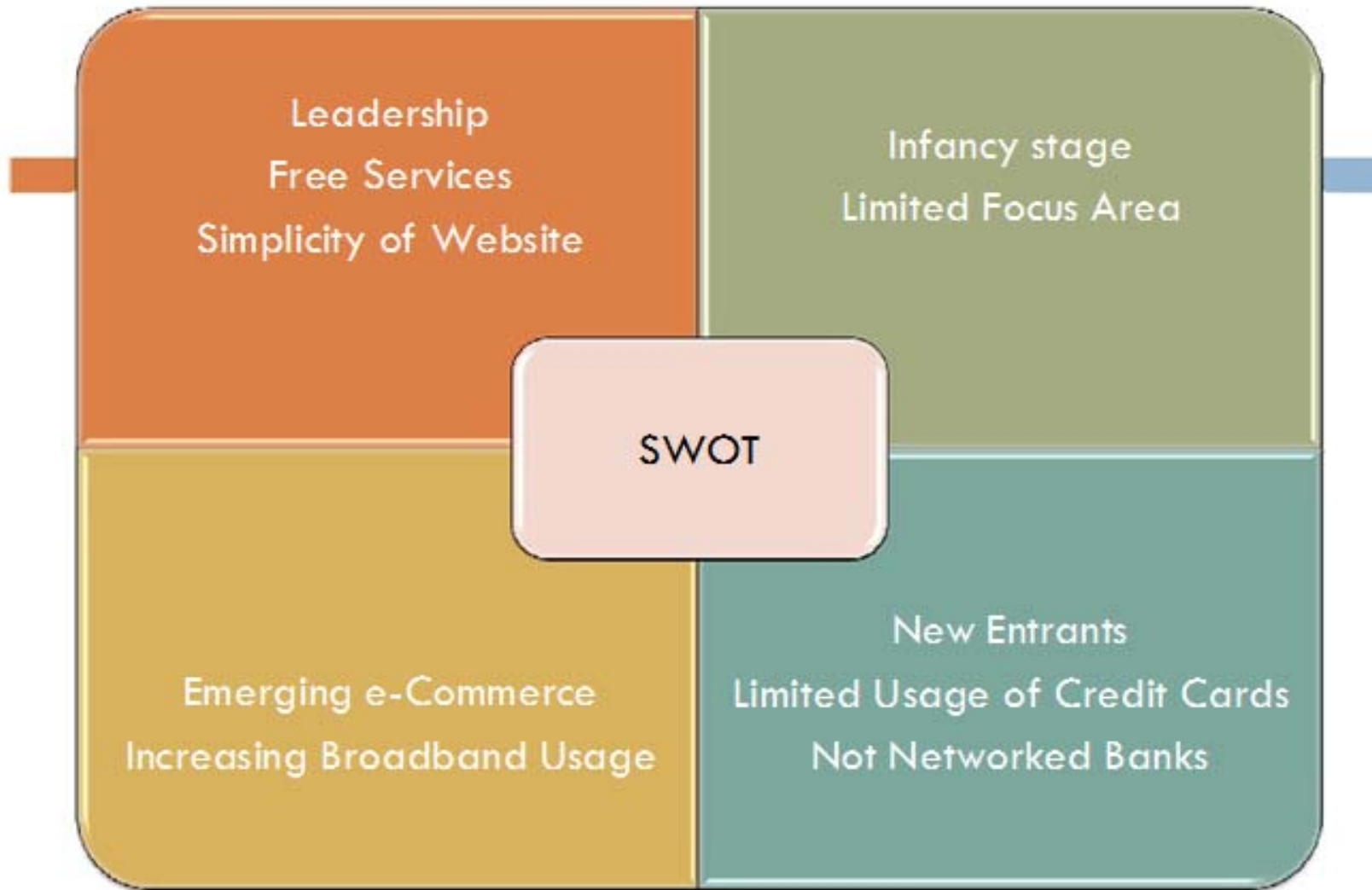
- Autocratic Leadership
- Corporate Culture
- Building Trust factor
 - Appointment of Softbank CEO
 - Appointment of Chairman, Goldman Sachs

Leadership



- “Jack Test”
- Influential

“ We cannot create beautiful power points, but we know how to listen to our customers”



SWOT Analysis

Controlled by marketers



Beyond marketers' control

PHASE II

2000 TO 2003

Case Description

- Dotcom Crash
 - Advertising Revenue
 - Bankruptcy
 - Mergers
- Early 2001 – Alibaba offered Alibabies
- Late 2001 – created a Community “China Suppliers”
- Set a “Trustpass Membership ”

Objective



- ▣ Withstand Dotcom Burst
- ▣ Consolidate Firms Position
- ▣ Image Building
- ▣ Retain Employees

Marketing

- “Back to Coast”
- Additional services of Registered Members
- Taobao was launched in May 2003, China’s most popular C2C trading site.

Finance



- Revenue Model
 - Selling of Advertising Space
 - Charging of Membership

Human Resources



- Retention of Employees in tough Times
- Appointment of GE's CEO

Operations

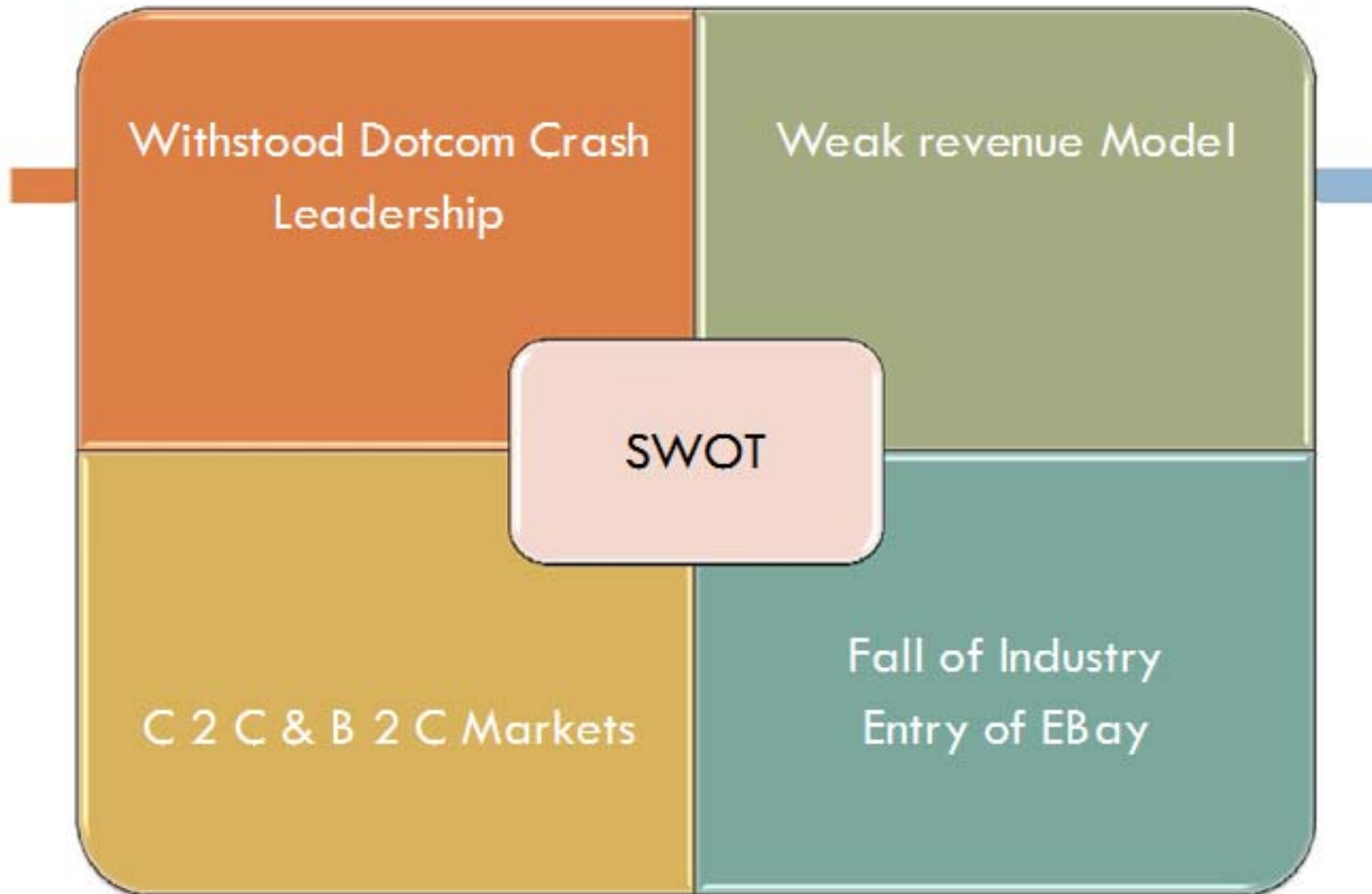


- Back to China
- Back to Central
- Association with *Motorola*

Leadership

- Conservative
- Motivating
- Down to Earth

“ Lets make one Dollar Profit for the whole year. We Spend US\$ 5 Million, We should make atleast one back”



PHASE III
2003 TO 2007

Case Description

- ▣ Entry into C2C and B2C
- ▣ Winning over eBay
- ▣ Yahoo! china Acquisition

Objectives



- ▣ Expansion within China
- ▣ Global Presence
- ▣ Better Revenue Model

Marketing



- Consumer Research
- Aggressive Promotions
- Positioning Strategy
- Diversification

Financial



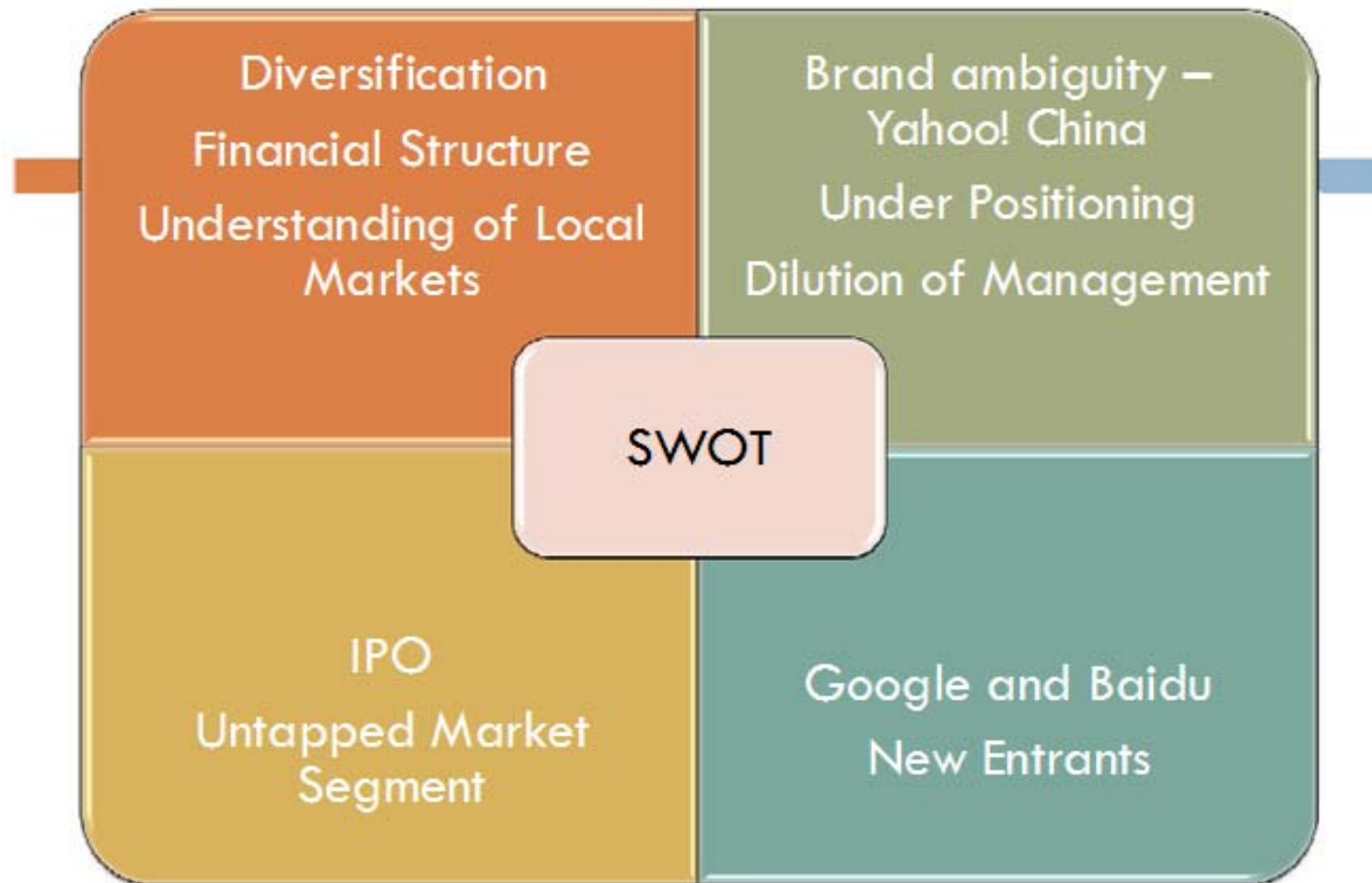
- Debt Leverage Concept
- Merger and Acquisition
- Expansion of revenue Model

Leadership



- ▮ Determined
- ▮ Aggressive
- ▮ Adaptability

“ The world is changing so fast that you don't know what each other is thinking about, you do not even know what you are thinking yourselves. How do you know who are your Competitors. “



Strategy - What is strategy?

Johnson and Scholes define strategy as follows:

"Strategy is the **direction** and **scope** of an organization over the **long-term**: achieves **advantage** for the which organization through its configuration of **resources** within a challenging **environment**, to meet the needs of **markets** and to fulfil **stakeholder** expectations".

- * What resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete? (resources)?
- * What external, environmental factors affect the businesses' ability to compete? (environment)?
- * What are the values and expectations of those who have power in and around the business? (stakeholders)

Summary 1



- Need Identification
- Segmentation and Targeting
- Delivering Value through Customization
- Leadership
- Financial Venture Capitalist
- Corporate Culture

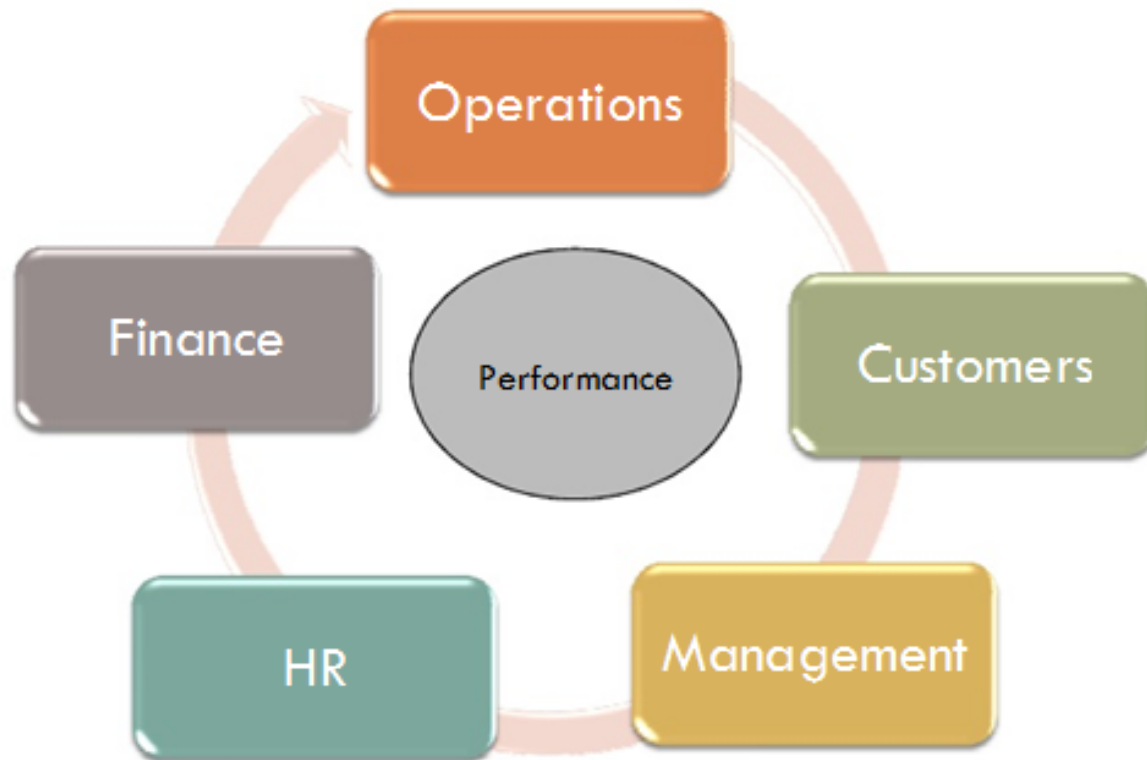
Summary 2

- ▣ Service Design
- ▣ Diversification
- ▣ Globalization
- ▣ Competitive Strategies
- ▣ Financial Expansion - IPO

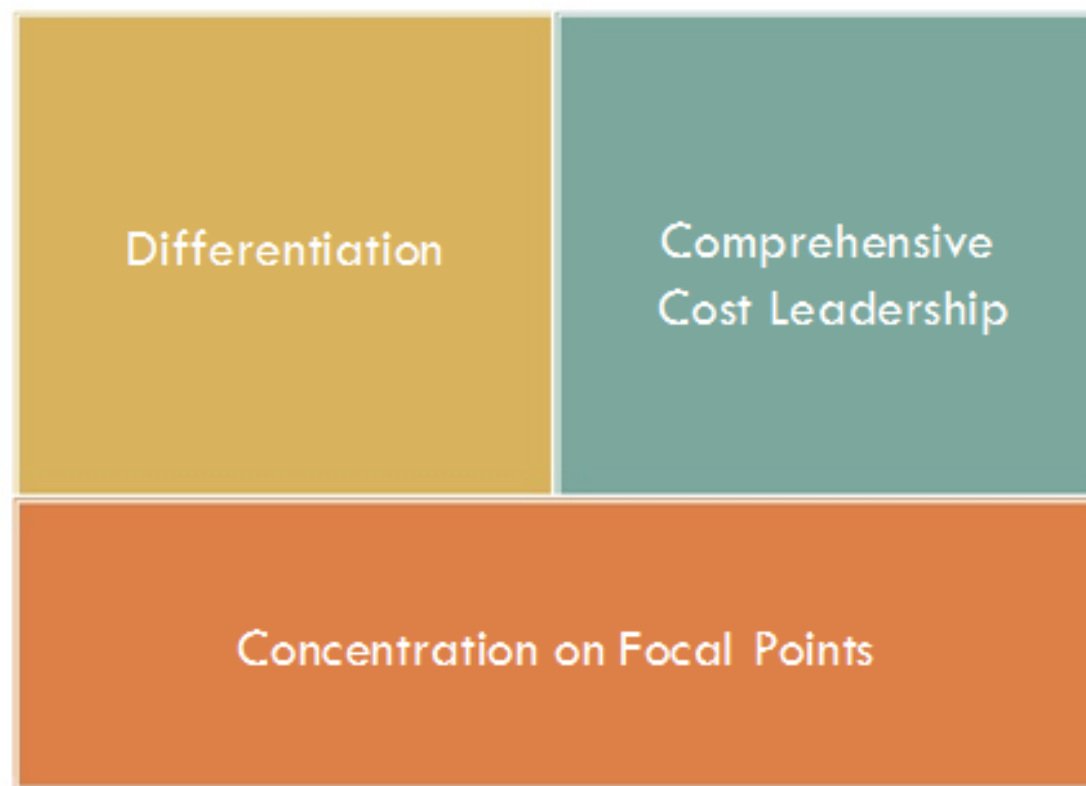
Current Strategies

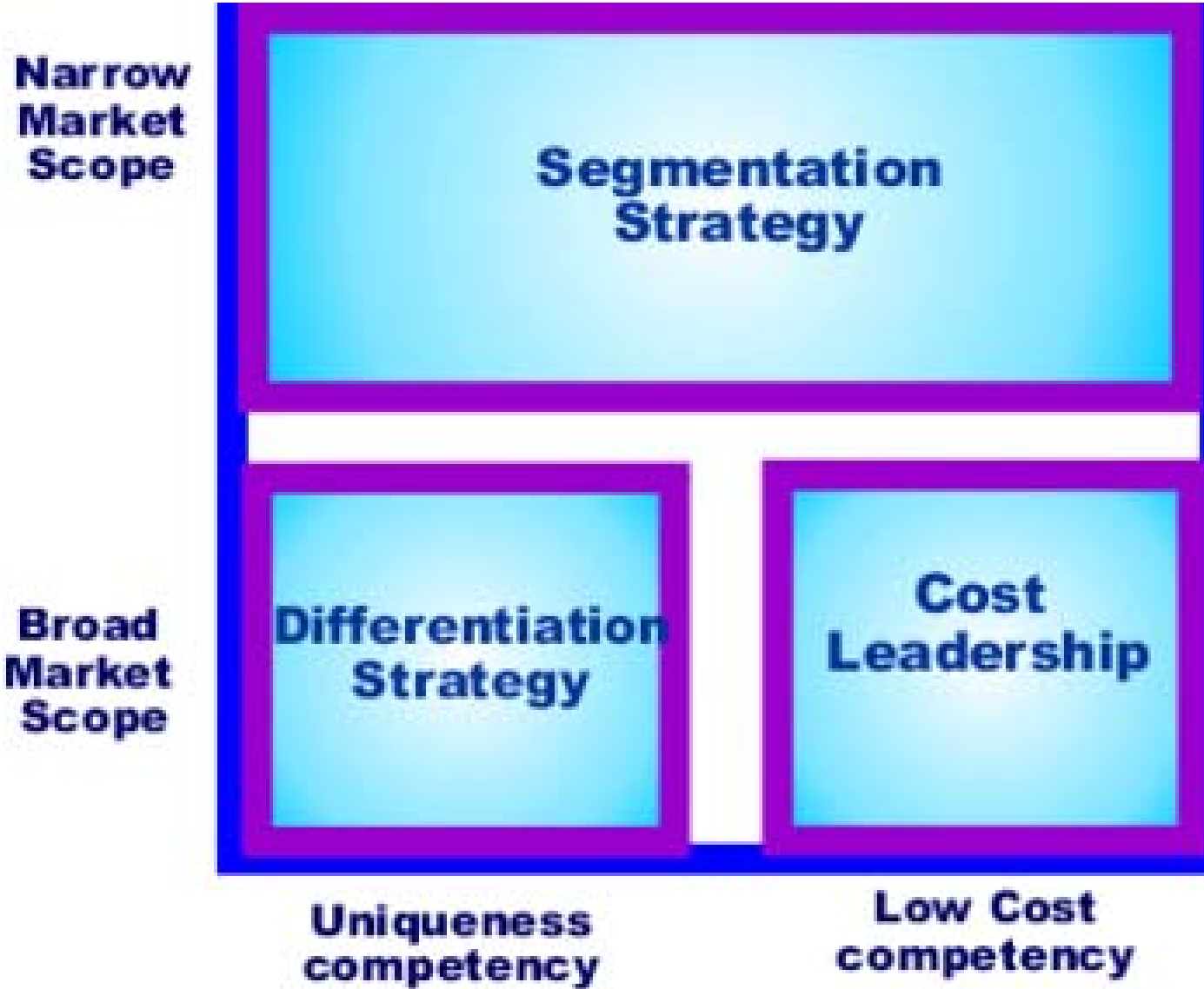
- Part of HKSE composite Index
- Ali-ADvance – Bidding Site
- Use of 3G Networks
- Advisory Services
 - Marketing Solutions
 - Organizational Development
- New Competitors
 - Youa – Baidu's C 2 C website
 - Kaixin001 – Social Networking Site

Strategy Network



Porters generic Model





Portfolio Analysis

- Diversification
 - Alibaba China
 - Alibaba International
 - Taobao
 - Alipay
 - Alisoft
 - Alimama
- Merger and Acquisition
 - Yahoo! China

Ansoff Matrix



Types of Membership at Alibaba.com

□ Free Membership : They were offered basic services free of cost.

□ Trust Pass membership : It was a paid service where the member had to pay US\$299 and would be verified by a third Party credit reporting agency.

□ Gold Supplier: This was primarily for export oriented suppliers
The suppliers were classified into 27 industries which enabled the buyers to locate the companies easily..

New Business Proposal

- Vision for the future as per Jack Ma—"My vision is to build e-commerce ecosystem that allows consumers and businesses to do all aspects of business online"
- Development of New Browser
- Added Features
 - Built-in Yahoo! China Search Engine
 - Local Language
 - Light, Hence Faster
- Revenue Model – Pop-Up Ad Blocks
- Aggressive Promotion
- Targeting College and Young Working Class

ISSUES FOR DISCUSSION



□ Critically analyze the factors that led to Alibaba sustaining its leadership position in the Chinese e-commerce market.

□ Critically examine the Alibaba's business model. Do you think it is sustainable?

After having captured the Chinese e-commerce market, what steps should Alibaba take to expand globally further.

Action Proposal with Partners



Partnership Building

Alibaba offers:

- International Free Membership for all partners' SME members to promote them worldwide
- Promote partner organization worldwide through banner, link, and etc.
- Provide tools such as search bar, trade alerts and etc. on partner website
- Content exchange about SME related subjects such as innovation etc.
- Joint event, etc to educate e-commerce, SME innovation and etc.
- Discounted paid membership with value added service for partner's SME members

Partners offers:

- Promote Alibaba locally through banner, link, and etc.
- Content exchange about SME related subjects such as innovation etc.
- Joint event, etc to educate e-commerce, SME innovation and etc.

To achieve the win-win results and long term partnership

Background



□ He gathered 18 people and explained his vision to them and paid them Rimi(RMB -Chinese currency with principal unit called Yuan.) and Alibaba was launched in Aug 1999-registered in Hong Kong with total capital of 60000 USD.

□ He later accepted offer of venture capital investors up to US \$ 5 million in Oct 1999 and persuaded Softbank Corporation(Soft Bank) to invest US \$ 20 Million in his venture in Jan - 2000 . In return , Peter Sutherland ,Chairman of Goldman Sachs and Masayoshi Son CEO of Soft Bank joined Alibaba board of advisors. Ma moved head quarters of Alibaba from Hangzhou to Shanghai.

Background



- Alibaba concentrated on SMEs all over and became its World Trade Organization to help the small and medium enterprises to grow.
- During (1990 – 2000)s the internet was not very popular in China and banks were not networked Credit card usage was limited and providing logistics services in the country was difficult.
- Initially Alibaba had two websites – www.alibaba.com, an English websites for international B2B trade and [www.china .alibaba.com](http://www.china.alibaba.com) for B2B trade in china. Alibaba Japan website was launched in 2002 www.alibaba.co.jp, as Japan was china's second largest trading partner.

Background

- In May 2000 , Ma brought in John Wu(Wu), the creator of the Yahoo! Search engine, and appointed him as the chief technology officer of Alibaba.
- Another major concern for Ma was that many SMEs distrusted the idea of online payments but still Ma was able to convince them.
- By end of 2000 Ma has become largest online global trading. with about 200,000members from 194 countries of which 70% was Chinese
- Alibaba aimed to have a global presence and expand in the US and hence the company's R&D was mainly done at Silicon Valley
- During early 2000 Alibaba's popularity attracted a number of other companies to start e-commerce venture in china

Background

- While some of these firms concentrated on particular industries others such as Commerce one on Big business in Europe
- Ma refused to worry about the rising competition and in March 2000 when the dotcom bubble burst as number of dotcom and e-commerce companies filed for bankruptcy
- Alibaba however was able to withstand the dotcom crash since its business was not dependent on advertising revenue.
- Then it announced B2C strategy
- Back to china under which Alibaba would concentrate mainly on improving its business in china rather than focusing on global markets

Background



- Back to central under which the head quarters was moved
- Back to Coast under which Alibaba would concentrate on improving its presence in the coastal areas
- In early 2001 Alibaba started offering a customized online market place for the members
- In late 2001 Alibaba began charging its members for its services
- By March 2002 Alibaba's members had touched the one million mark

Background



□ In March 2002 Alibaba set a trust pass membership fee of Us\$299
companies wanting to join Alibaba after which they verified and authenticated.
About 200 Chinese companies are registering them every day.

Alibaba.com- from SME, and for SME



Since its inception more than 9 years ago, Alibaba.com has grown at an amazing rate

1999



*Employees: 18
Office in Jack Ma's Hangzhou apartment*

2008



*Employees: More than 10,000
Offices: Hangzhou (HQ), Beijing, Hong Kong, Silicon Valley (US), Geneva (Switzerland), plus 30+ sales offices across China*

Alibaba.com's IPO



- Raised US\$1.7 billion, the world's 2nd largest Internet IPO after Google
- US\$180 billion in subscription monies frozen, more than any other HK IPO
- Price jumped 193% in the 1st day of trading, best IPO performance in 10 years
- China's biggest Internet company by market capitalization
- Asia's 2nd biggest Internet company
- World's 6th biggest Internet company



All About SMEs!



➤ **Big SME* market**

- In China: 42 million SMEs
- In Europe: 23 million SMEs
- In US: 22 million SMEs

➤ **Critical to global economy and trade**

- In China: 58% of GDP, 68% of import and export volume, 75% of employment
- In Europe: over 50% of GDP, 60% of employment, over 100 million jobs
- In US: over 50% of GDP, 67% of export volume, 67% of employment

* SME means all employer firms, self-employment non incorporated and incorporated.

Alibaba's Approach to Promote SME Innovation & Entrepreneurship



...in the process help empower SMEs all over the world

- **Technology:** harness ICT and e-commerce with low entry barrier and cost
- **Financing:** provide online platform for SME financing (in China): credit loan, VC matchmaking and etc.
- **Trainings:** capacity building activities and events for SME's management expertise, entrepreneurial spirit and etc.



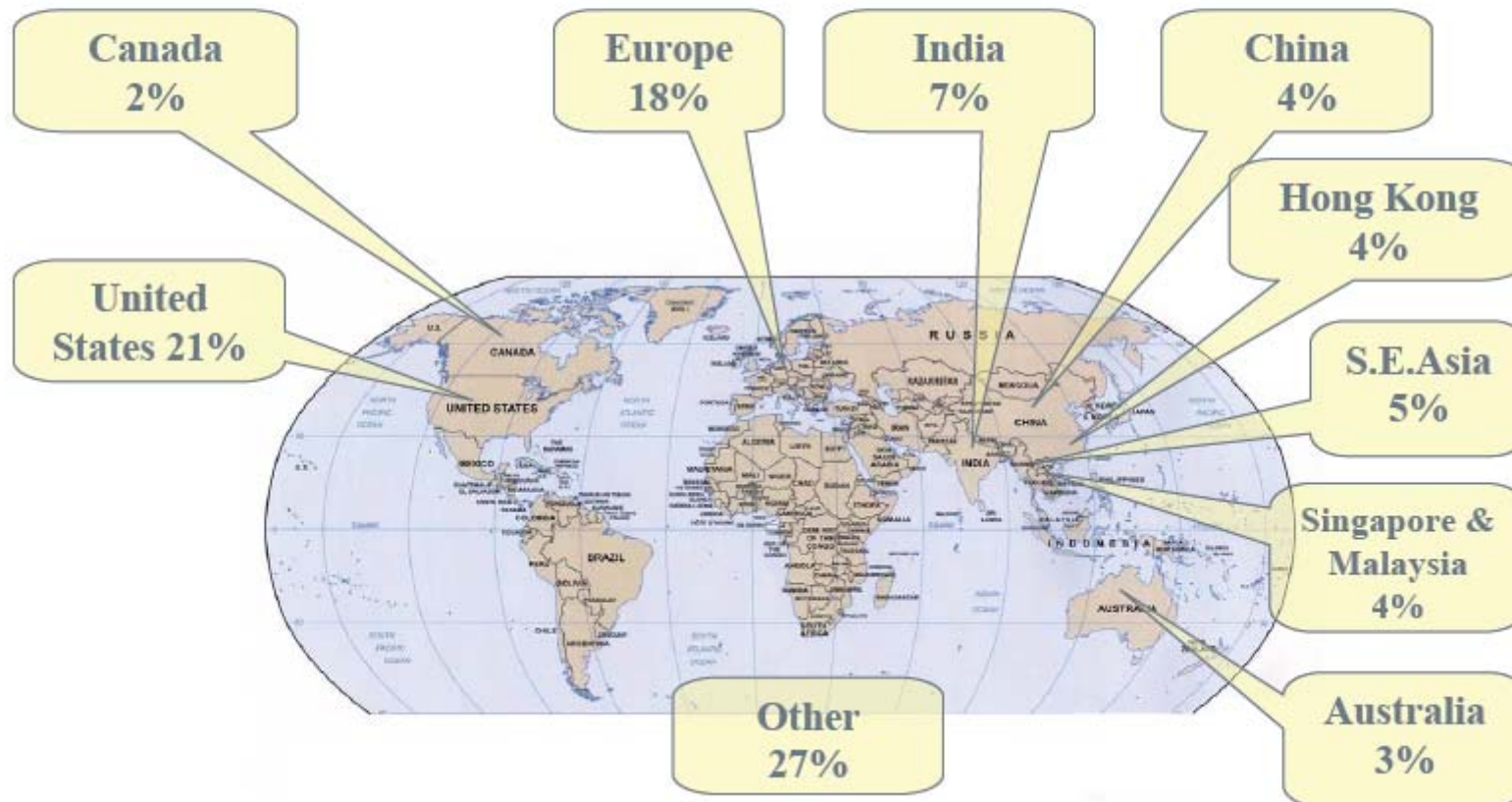
Alibaba empowers SME innovation in enterprise competitiveness, market outreach, financing and more

Background

- Jack Ma ,the founder of Alibaba,was born in China in 1964,graduated in English in 1988 and became teacher.
- He had opportunities to get exposure to internet in USA , He launched China Pages, China's first commercial website in 1995 by borrowing \$2000 from relatives.
- In 1998, Ma moved to Beijing to work for the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) as the head of International Department of the China International Electronic Commerce Center(CIECC), and **designed the first Govt. website for China.**

Where Are the Alibaba Buyers?

All Over the World – A Global Marketplace



Terms and Definitions

Buying Lead

- A Buying Lead is an invitation to sellers to contact buyers with relevant products and price offerings. They are in the form of postings and hyperlinks on Alibaba.com.

Selling Lead

- A Selling Lead is an invitation to buyers to contact sellers with relevant product and price requirements. They are in the form of postings and hyperlinks.

IMPORTANT FACTS ABOUT THE PRESENT SITUATION-UPDATED

- In December 2009 Alibaba.com announces the creation of China's first Small Business Credit Rating System and the establishment of a RMB 1 billion Business Integrity Insurance Fund.
- Fair Play Fund is introduced on the international marketplace to help offset a portion of losses suffered by buyers defrauded by China Gold Supplier members. April 2010 China TrustPass Basic is introduced on the China marketplace to make the benefits of TrustPass membership more widely accessible.

IMPORTANT FACTS ABOUT THE PRESENT SITUATION-UPDATED




- In April 2010 AliExpress is officially launched on the international marketplace for smaller buyers seeking fast shipment of small quantities of goods.
- Net profit for the three months ended March 31 was 330.0 million yuan (\$48.3 million), up from 246.7 million yuan a year earlier and above the average 284.3 million yuan forecast of six analysts.

IMPORTANT FACTS ABOUT THE PRESENT SITUATION



- In February 2008, Alibaba.com Corporation (Alibaba), China's leading e-commerce company, was ranked 8th in the World's most innovative companies (Fast Company Magazine-USA)
- Internet Business focused on E-Commerce business models B2B, C2C & B2C
- First Mover Advantage in Chinese e-commerce Market leading with market share of 69% in second quarter of 2007
- Huge opportunities in the Chinese Internet market

IMPORTANT FACTS ABOUT THE PRESENT SITUATION



- Company lagged behind Chinese search markets which was dominated by players eg Baidu.com, Inc & Google Inc. even after Company acquired Yahoo. Baidu aimed to build e-commerce platform by leveraging on its strong search engine capability.
- Biggest Initial Public Offerings(IPO) in all Internet companies world over, by Alibaba in 2007 ,raising US \$1.5 Billion-poised to grow all over world.

E-Commerce Market in China



□ E-commerce was introduced in China in 1993.

□ E-commerce in China grew from RMB 120 billion in 2001 to RMB 680 billion in 2005. And according to iResearch the online shopping market was RMB 12.6 billion in 2007.

□ E-commerce market was influenced by govt. regulations, logistics and payment systems.

□ From 22.5 million users (1.7% of internet users of China) in 2000, the usage rose to 162 million (12.3% of internet users) in 2007, and has been growing continuously since then.

Ali Baba -Country wise business Scenario (2008)

Country/Region	Business(in %)
USA	21
Europe	21
India	7
South east Asia	5
China	4
Hong Kong	4
Singapore and Malaysia	4
Canada	4
Australia	3
Others	27